

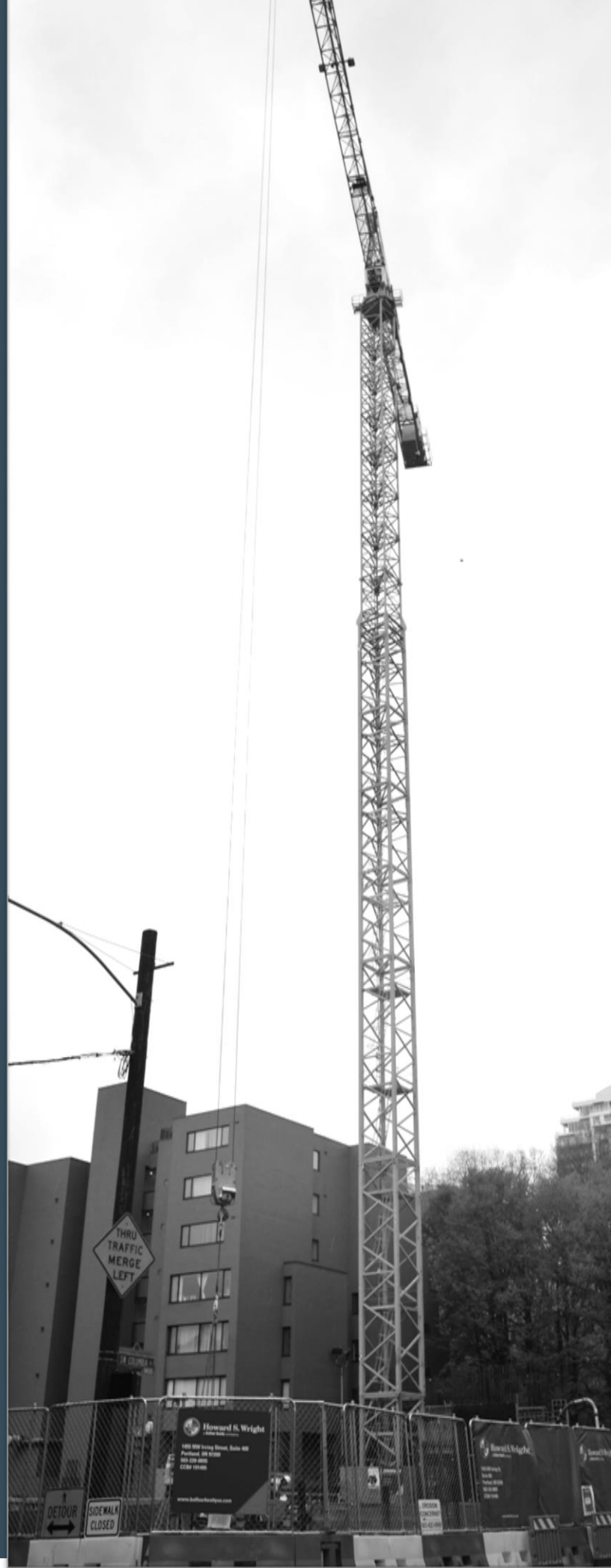
STRATEGIES FOR ACCELERATING HOUSING DEVELOPMENT IN PORTLAND

April 10th, 2017

City Budget Office
Office of Management and Finance

Bureau of Development Services
Bureau of Environmental Services
Portland Bureau of Transportation
Portland Fire & Rescue
Portland Parks & Recreation
Portland Water Bureau
Portland Housing Bureau

The City of Portland, Oregon



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Introduction

The City of Portland's development services play a critical role in the creation of a staggering amount of new development across the city each year. Our City's policies and practices around land use review, permitting, and inspection promote safety, livability, and economic vitality of residents, by ensuring that development in the City is consistent with land use and building laws and regulations. These services are delivered to customers by the Bureau of Development Services, Portland Bureau of Transportation, Bureau of Environmental Services, the Water Bureau, Portland Parks & Recreation, and Portland Fire & Rescue. The Bureau of Planning & Sustainability, the Portland Development Commission, and the Portland Housing Bureau also contribute to the City's development process.

Nearly fifteen years ago, the City of Portland embarked on a strategy to remove the silos between bureaus involved in development, and make the permitting process more streamlined for customers. Endorsing recommendations from a stakeholder's report called Blueprint 2000, in 2002, City Council set in motion the restructuring of the process for building and land development services, resulting in the co-location of development review bureaus and changes to procedures and customer service.¹ Inter-agency agreements between bureaus to govern the new process were established that same year to achieve better coordination of the City's regulatory process. While the City has made much progress in our coordination of development services, today's high demand for new development has led to increased processing times for more complex projects at a time when new developments – especially housing developments – are needed most. Additionally, the City's regulations have increased in complexity, with new code requirements and City-imposed costs that development customers must navigate.

Meanwhile, Portland is in the midst of a housing crisis, and increasing the supply of housing is one way to close the gap of available units. In January 2017, Mayor Wheeler and Commissioner Eudaly led a Government Accountability Transparency and Results (GATR) session to discuss how the City can help increase overall housing supply, and the pace at which housing units are produced. The session also included a follow-up conversation on the cost and speed of City-financed affordable housing, which started in 2015 under the Hales administration.

The GATR session provided background on housing need (including affordable housing need); the location of new housing development, and the volume of work being processed by bureaus that complete development reviews. The bulk of the presentation focused on the permitting process, and identified issues related to permit review time, and potential bottlenecks in the process. The role of Design Review was also discussed.

This follow-up report and corresponding GATR session scheduled for April 13, 2017, intends to provide specific recommendations around reducing City-imposed costs as a means to encourage housing development, and recommendations for accelerating the City's review processes where possible so that the City is not standing in the way of housing production.

The focus on this issue is spurred by Portland's remarkable increases in the cost of housing as compared to resident incomes. Portland has been steadily growing for many years, with more than 32,000 households arriving in the city between 2002 and 2014. Alongside this growth, housing prices have risen steeply, tightening the market for renters and buyers alike. According to findings in the [2016 State of Housing in](#)

¹ City of Portland Audit Services Division. *Development Review Process: Progress Made, Further Improvements Needed*. No. 289. Portland, Oregon, 2003. <http://www.portlandonline.com/shared/cfm/image.cfm?id=5752>.

[Portland Report](#), the average monthly rental rate rose by 7-percent between 2015 and 2016, with double-digit increases in rates for 1, 2 and 3-bedroom units. This is the fourth year that rents have increased by more than 5-percent, with average rents increasing nearly 30-percent since 2012. Renters make up 45-percent of households in Portland. Today the average renter has a median income of \$30,000, which is lower than the average renter income level in 2000.

Portland needs to both address the short-term housing crisis—the current lack of housing affordable to most Portland households, particularly lower income households and communities of color, well documented in the 2016 State of Housing in Portland Report; and the long-term need to ensure sustained, predictable, and robust housing production.

Mayor Wheeler’s memo dated February 1st 2017, directs staff to:

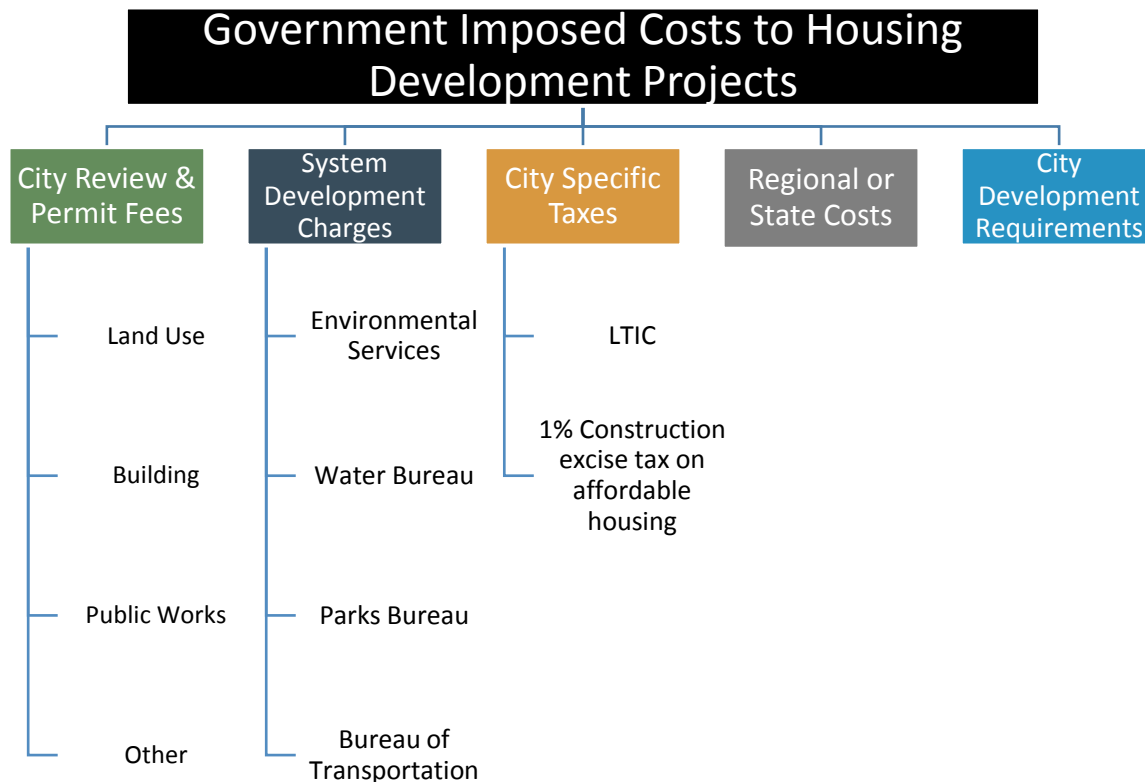
1. Identify potential mechanisms to alleviate costs to encourage and enable the faster production of housing, include the waiver of fees for the cost of affordable housing (as defined through the System Development Charge exemption) and reduction of fees for the cost of other “workforce” housing (as defined in the Construction Excise Tax exemption);
2. Develop recommendations on what fees should be raised, reduced, eliminated or repurposed;
3. Propose a feasible implementation strategy to reduce development review timelines as much as practical; and
4. Create a single case manager for qualifying affordable housing projects.

In order to develop responses to the four directives provided above, staff assessed the City’s development review and permitting process to understand the breadth of reviews an applicant may need, and the fees associated with those reviews; identified how review fees are used; examined the role of System Development Charges (SDCs); and assessed the impacts of reducing both fees and SDCs on City operations. Staff also explored the determinants of housing supply to understand the role that City costs—review fees, SDCs, and taxes—play in housing production and the private sector development decision-making process. Research included interviews with members of the development community. Finally, staff worked closely with representatives from bureaus involved in the development review process to develop and prioritize concrete options for improving review process timelines.

This report is organized into four sections. It begins with an overview of the current development processes and costs; including the magnitude of government-imposed costs on development projects, current cost waivers, and feedback from the development community on the City’s existing fees and processes. The second section provides an analysis of the costs and benefits of reducing City fees or charges on development, including the regulatory impacts of potential reductions. For the third and fourth sections, the focus moves to development process timelines. The third section highlights recommended strategies for reducing those timelines that apply broadly; the fourth discusses the City’s recent efforts to reduce timelines for City-financed affordable development. This review of the creation of a single case manager service for affordable projects includes lessons learned, as well as suggestions for continued improvement. The report concludes with a summary of our key findings and recommendations to encourage faster and greater production of housing moving forward.

Current Development Processes and Costs

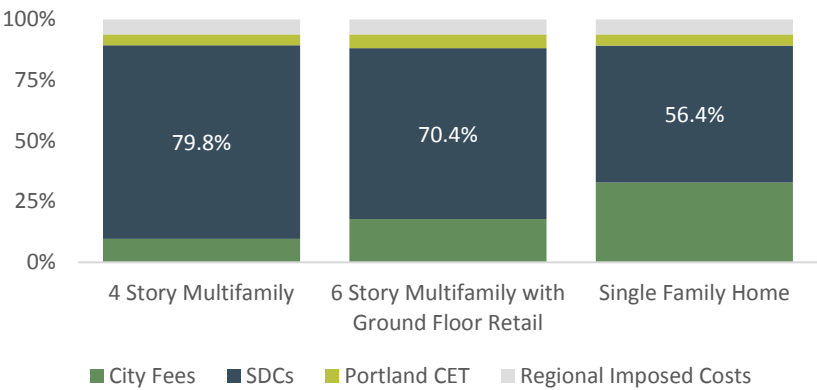
As depicted in the chart below, government-imposed costs that affect development projects in Portland can be organized into five main categories: (1) City review & permit fees; (2) System Development Charges; (3), regional or state taxes or surcharges; (4) City taxes and requirements; and (5) development requirements. While the first four categories impose *direct* costs on housing development projects, City development requirements often impose *indirect* costs on housing projects.



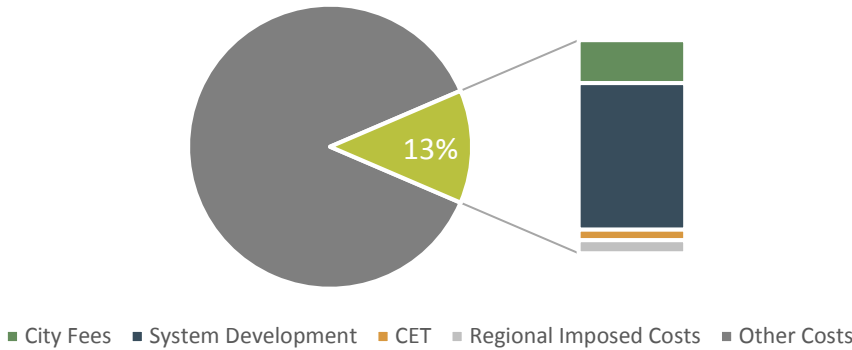
Magnitude of Government-Imposed Costs on Development

As discussed in more depth later in this section, City-imposed costs vary significantly by project type, making aggregate cost analysis challenging. To provide a general sense of the impacts and scale of government-imposed costs, this report looks at cost data from three sample projects that comprise typical categories of residential projects: 1) a 4-story multifamily project; 2) a 6-story multifamily project with ground floor retail; and 3) a single family home. As depicted in the graph below,² SDCs typically comprise the largest portion of government imposed direct costs incurred by housing development projects. This report focuses predominantly on the impact of current and potential changes to City Review and Permit Fees and SDCs, as these two categories of costs are within City control. This report also discusses the impact of City development regulations, which is harder to quantify but may have a more significant impact on housing development projects.

SDCs Represent the Majority of Government Imposed Costs



Government Imposed Fees Represent a Small Share of Total Costs on Housing Development Projects



It is important to note that sample projects evaluated showed that government imposed direct costs typically comprise a relatively small portion of development budgets, at roughly 13% of total housing project total cost³. This is explored more in detail when discussing trade-offs of potential fee reductions and waivers later in this report.

A variety of factors influence the pace housing is produced. City rules, regulations, costs, and processes have differing affects —some are direct, and some indirect. Below is a snapshot of how City actions interact with private development. The table below is a very high-level summary of a complex and nuanced set of factors. The intent of this table is to highlight the determinants over which the City has more and less influence.

². Due to complexity and variability of project costs, developing aggregate average projects costs lies outside of the scope of this analysis. For this reason, sample data from two commercial developments and one single family home are used to illustrate general trends for multifamily and single-family housing expenses throughout this report.

³ Total Cost includes building valuation and land cost for these specific projects

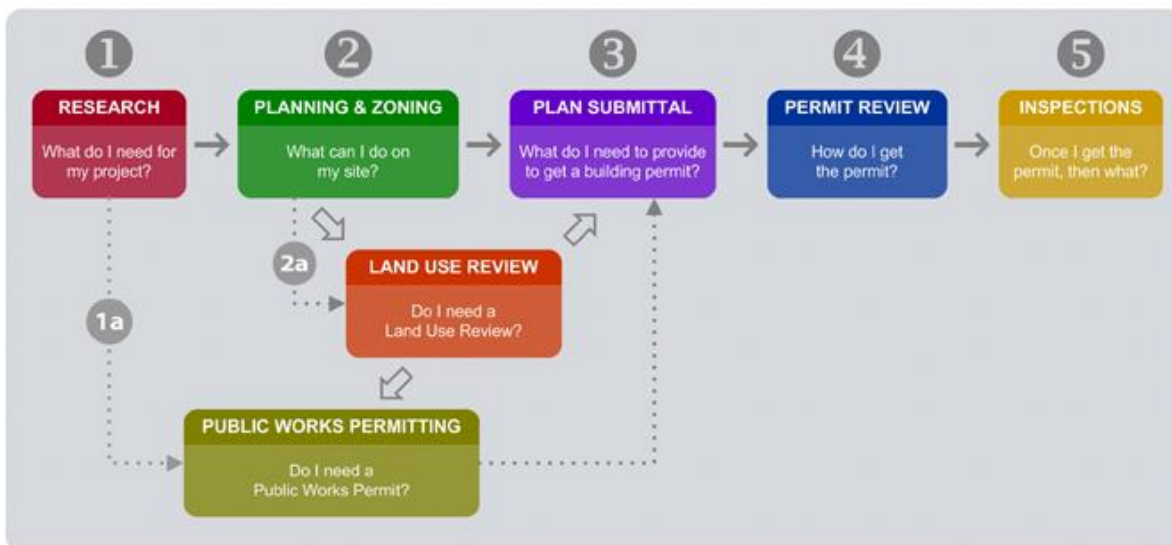
| The City may directly impact only a portion of housing supply determinants | | |
|--|---|-----------------------------|
| Determinants | Related City Action | City Effect on Determinants |
| Land costs and availability | Zoning | Indirect |
| Construction materials | NA | None |
| Labor costs and availability | NA, unless City-financed | None, unless City-financed |
| Design and engineering | Building and infrastructure design requirements | Indirect |
| Financing | Approval process, regulatory criteria | Indirect |
| Time to complete | Approval process | Direct |
| Fees and charges | Rates | Direct |

Review Processes, Fees, and Charges

The City is responsible for reviewing and permitting development projects built in Portland to ensure compliance with all applicable policies, codes, and regulations. Policies, codes, and regulations relate to health and safety, environmental protection, as well as land use, and design.

The array of reviews required for a project depends on type, scale, and location of the project. A similar project in different locations may require different reviews because of the geographic context; and two very different but adjacent projects may require different reviews because of the character and scope of the specific developments. Some reviews are significantly more complicated than others to complete, and the speed at which reviews are completed depends heavily upon the quality of the materials submitted.

The following diagram shows the general process an applicant must follow, and summarizes the types of reviews that a project may need to go through. Each review has a review fee which is charged to the applicant. Review fees are generally set to achieve cost recovery.



Some projects require land use review prior to applying for building permits and trade permits (mechanical, electrical, and plumbing), site development (preparing the site for development, grading, flood plain alterations, etc.), and/or public works permits for connecting to utility systems and completing needed public right-of-way improvements. Land use review is needed, for example, for uses that are only conditionally allowed in certain locations, of adjustments are needed to codified standards, and in areas where design or environmental reviews are needed. These are two examples of when land use reviews may be required;

however, land use reviews may be required for other reasons specified in the Zoning Code, Title 33 of City Code.

With or without land use review, all housing projects require building permits, along with associated mechanical, plumbing, and electrical permits. Housing projects are also reviewed for sanitary and storm sewer, water service, fire code, and parks/urban forestry needs. Permits are submitted to BDS, but other bureaus participate in building permit reviews, and their approvals are required within the building permitting process.

Permits for driveway, sidewalks, and street improvements are often needed to support projects. Depending on the level of infrastructure present, public works permits may be required for development to proceed. Public Works Permits must be coordinated between PBOT (Signals and Lighting, Structures, Traffic, Permit Engineering, etc.), BES, and building permit functions to ensure all parts of the project fit together on the site. However, public works permits are issued through a separate engineering process led by PBOT. Permits and fees are also charged for actions such as using the public right of way during construction, and temporary traffic control approval.

Setting Review Fees: Achieving Cost Recovery

Each bureau that conducts reviews sets their own fees for reviews. Across all bureaus, review fees are intended to achieve cost recovery—that is, they are intended to cover expenses such as staff and overhead and operating costs. Fees for building, mechanical, plumbing, and electrical permits are set using methodologies governed by state law.

Cost Recovery Rates by Bureau

| Bureau | Target Rate | Recovery Rate |
|--------|--|--|
| BDS | 100%, plus contribution to 50% operating reserve | Today, but much lower during recession, and when the number of small projects increases. Land use has a lower recovery rate than building and trade permits |
| BES | 75% | Cost recovery is a target used in fee development, not a fixed percentage. If actual permit volumes vary significantly outside assumed volumes, the actual end-of-FY cost recovery rate will vary accordingly. |
| Fire | 100% | High of 119% in 2016, and a low of 52% in 2010. Projected to achieve 100% this year, and 87% in the next fiscal year. Prior to recession, recovery rates ranged from 72-86% |
| Water | 100% | 100% |

| | | |
|-----------------|---|---|
| PP&R (Forestry) | Title 11 set fees well below recovery, with the intention to increase them over time. | 45% (increasing over time as Title 11 is implemented) |
| PBOT | 100% with incremental increases per year to reach targets | 85% current recovery rate Land use review: <100%; BPR= 100%; PWP ~ 100% SSL the exception |

Determining the fees that will be charged for each development proposal is dependent upon knowing which reviews will be required for a given project. The Bureau of Development Services has an online fee estimator that produces expected permit and System Development Charges for projects:

<https://www.portlandoregon.gov/bds/59194>. Anecdotal evidence from development community interviewees suggest that the online estimator provides a general idea of applicable project review fees, but is often not accurate enough to use in financing, and additional assistance is needed from City staff to determine what the fees for a project will be. This estimator does not include Public Works Permits fees or construction use of the right of way. During interviews with the development community, it was noted that more certainty about street design and Public Works Permit fees would be helpful, particularly for smaller projects.

Setting SDCs: Paying for Desired Service Levels

SDCs are revenues that contribute to the expansion of municipal service systems, and are levied by Parks and Recreation (PP&R), Transportation (PBOT), Water), and Environmental Services (BES). Some SDCs pay for service expansion (investment fee), while other SDCs purchase a piece of the existing system built to accommodate growth (reimbursement fee). Based on a review of other SDCs in the region, Portland's SDC rates are average⁴. Some of the development community argue that Portland's SDCs should be less, since a benefits of infill development is the presence of infrastructure; however, increased population levels results in higher levels of usage (frequency and/or quantity) which result in a greater need for system/infrastructure reinvestments.

City System Development Charge Overview

| | SDC | Methodology & Review | Waivers | Payments |
|-----|--|--|---|--|
| BES | <ul style="list-style-type: none"> Reimbursement SDC Covers the cost of increased use. SDCs reimburse BES for the infrastructure necessary for Development | <ul style="list-style-type: none"> SDCs are modified annually to reflect the value of developed infrastructure. Criteria follows ORS 223.304 2 SDCs: Sanitary & Stormwater Sanitary is based on Equivalent Dwelling Units or fixture units | <ul style="list-style-type: none"> Low income housing ADUs Credits available | SDCs are assessed after a building permit application is submitted and is due upon building permit issuance. |

⁴ League of Oregon Cities System Development Charge Survey Data. <https://data.orcities.org/City-Financial-Data/System-Development-Charge-Survey-Data/nb7c-wkjq>. Accessed April 4, 2017

| | | | | |
|-------|--|--|--|---|
| | | <ul style="list-style-type: none"> Stormwater is based on three factors: impervious area, street frontage, and daily vehicle trips. Flat fee for single family or two family home | | <p>There are three payment options:</p> <ol style="list-style-type: none"> 1. Pay in full when permit is issued 2. Defer payment for 6 to 12 months with interest. Term is dependent on project valuation and building type. Payment is due in full at end of term. 3. Finance the fee in monthly installments, with interest (5.1%) over 5, 10, or 20 years |
| Water | <ul style="list-style-type: none"> Reimbursement SDC Covers the cost for the new development's share of water system capacity | <ul style="list-style-type: none"> Updated annually according to OAR Based on equivalent meter unit | <ul style="list-style-type: none"> Low income housing ADUs Credits available | |
| PP&R | <ul style="list-style-type: none"> Investment SDC Covers a portion of the cost to provide for parks and recreation facilities to serve new development | <ul style="list-style-type: none"> Updated every 5 years (last update effective 2016) Based on an existing level of service investment per person, new development pays that same investment per person rate Distinguishes between residential and commercial, central and non-central city | <ul style="list-style-type: none"> Low Income ADUs Credits available Campus Housing Temporary Use Tenant Improvement Alterations | |
| PBOT | <ul style="list-style-type: none"> Investment SDC Covers the cost for transportation facilities needed to serve new development and the people who occupy or use the new development | <ul style="list-style-type: none"> Updated every 10 years (currently being updated) Historically, residential is based on dwelling units and commercial based on business type and square feet | <ul style="list-style-type: none"> Low Income ADUs Credits available Temporary use Graded Scale Development that will not generate more than 250 vehicle trips | |

A full list of SDCs can be found on the Bureau of Development Service's [website](#). Per Oregon Systems Development Act (ORS 22.297-223.314), SDCs cannot be used for operations costs or maintenance but must be used for capital improvements, capital developments, or in some cases debt service payments.⁵ Prior to establishing SDCs, local governments must prepare a capital improvement plan, public facilities plan, master plan or comparable plan that includes a list of the capital improvements the jurisdiction intends to fund, in whole or part, with SDC revenues. For bureaus that charge improvement SDCs, this list must include estimated cost(s), timing and the percent of cost(s) eligible to be funded with SDC revenues⁶. For bureaus that charge a reimbursement fee, all of their capital projects are eligible. As OAR mandates master plans, each of the

⁵ OregonLaws.org, 2015 ORS 223.297 Policy, Accessed March 8, 2017, <https://www.oregonlaws.org/ors/223.307>

⁶ OregonLaws.org 2015 ORS 223.309 Policy, Accessed March 9, 2017, <https://www.oregonlaws.org/ors/223.309>

bureaus have their respective SDC plan or methodology document available upon request or on the bureau website.

SDCs were adopted in Oregon in 1989 and regulations have been updated multiple times. The City of Portland adopted SDCs for different bureaus at different times giving rise to a disparate process and methodology review. The DRAC developed a subcommittee in 2009 to evaluate SDCs, and created a report for their members that was shared with Council. Also in 2009, Council directed Interagency Bureaus to work with DRAC on a standardized SDC program which offers a uniform approach to SDC low income waivers, SDC deferrals and SDC financing. In 2010, the City achieved policy uniformity around affordable housing waivers, as well as options for payment. The bureaus do not currently set SDCs in concert. Both utility bureaus set SDCs annually as mandated by OAR. Parks and PBOT set SDCs on intervals of 5 years (Parks) and 10 years (PBOT). These intervals make sense for the respective bureaus; however, the 5-year interval does not line up with the 10-year interval.

Current Development Cost Waivers

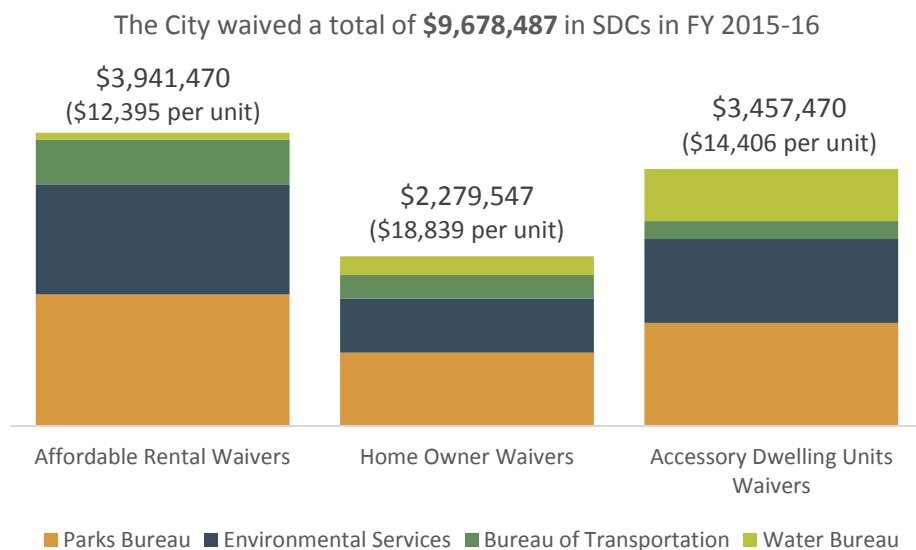
The City currently operates two SDC waiver programs—one for affordable housing (multi-dwelling and single-dwelling projects), and one for accessory dwelling units (ADUs), which are smaller dwelling units attached to or on the same lot as the main dwelling.

As depicted in the graph below, waivers resulted in \$9.68 million in foregone SDC revenue during the FY 2015-16 fiscal year. These waivers contributed to the development of 318 affordable rental units, 121 home owner units, and 240 ADUs. This amounts to an average per-unit waiver of \$12,395 for affordable rental units,

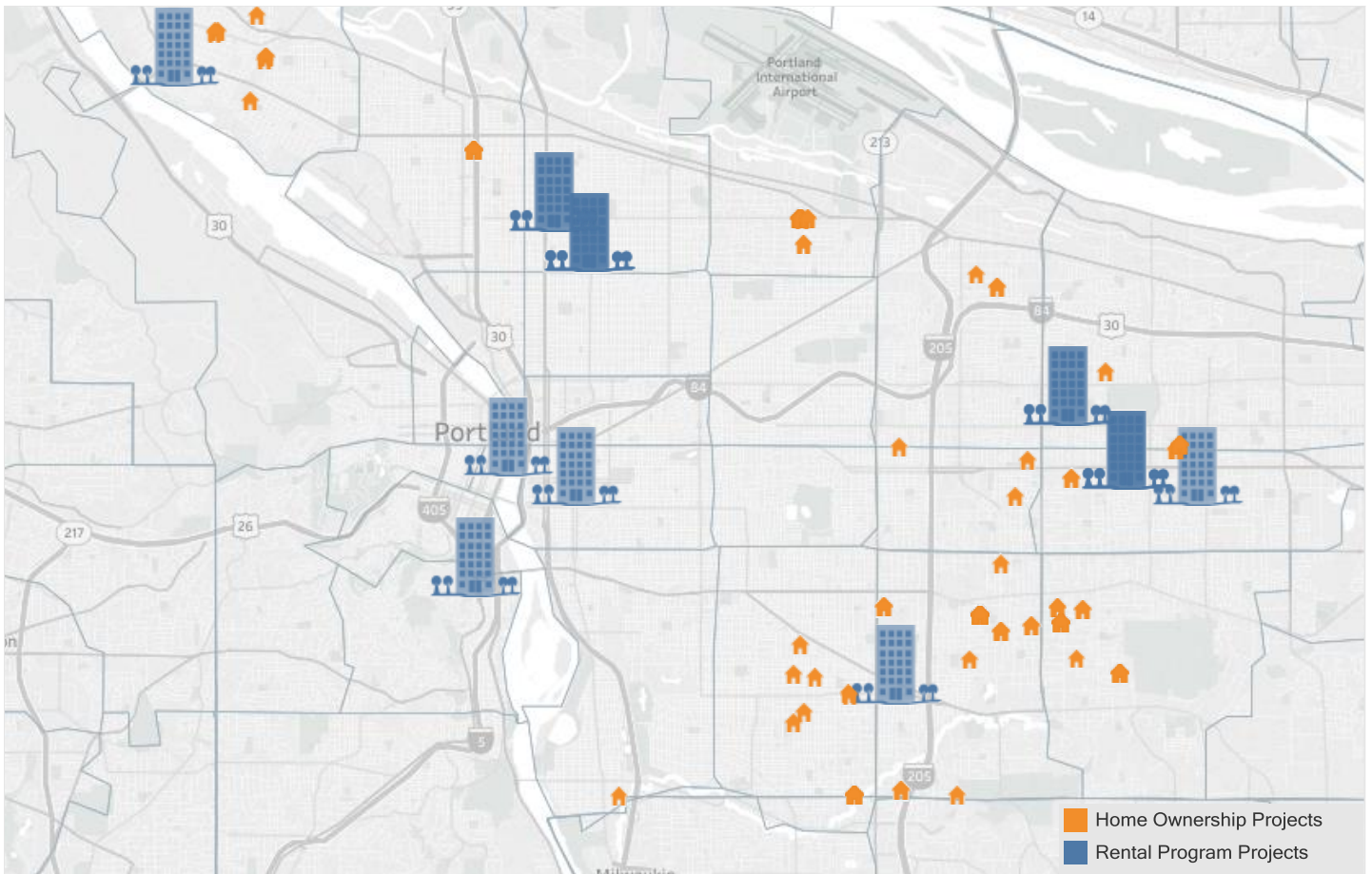
\$18,839 for affordable homeownership units, and \$14,406 for ADUs.

Beneficiaries of Current Waivers

In terms of the beneficiaries of SDC waivers, affordable rental units are offered to lower income individuals and families (at or below 60% of Area Median Income, AMI), and the homeowner program units are targeted towards first time homeowners who have sufficient income to pay a mortgage in the current housing



market (at or below 100% of AMI). The City waives SDCs for smaller, auxiliary dwelling units on the same lot or within a house, attached house or manufactured home. Direct beneficiaries of ADU waivers are property owners constructing the ADU on their property. There is no requirement that ADUs are rented out as affordable housing and how the ADUs are utilized is not tracked, so additional beneficiaries of ADU waivers are unknown. The following map displays the geographic distribution of single-family and multi-family affordable housing unit waiver recipients in FY 2015-16.

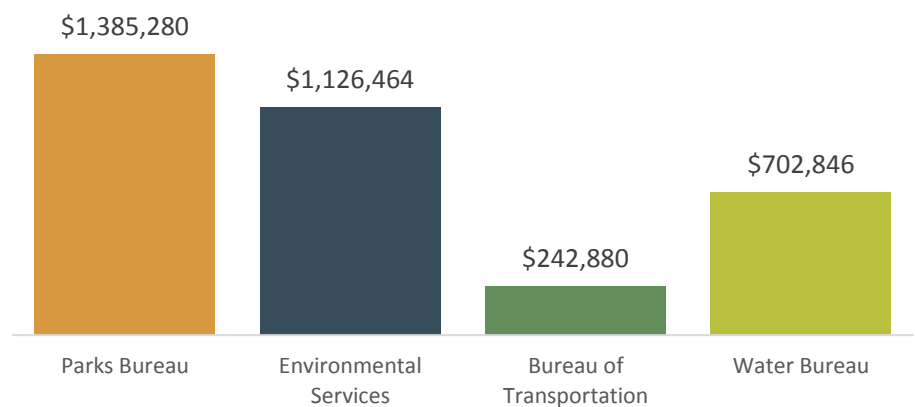


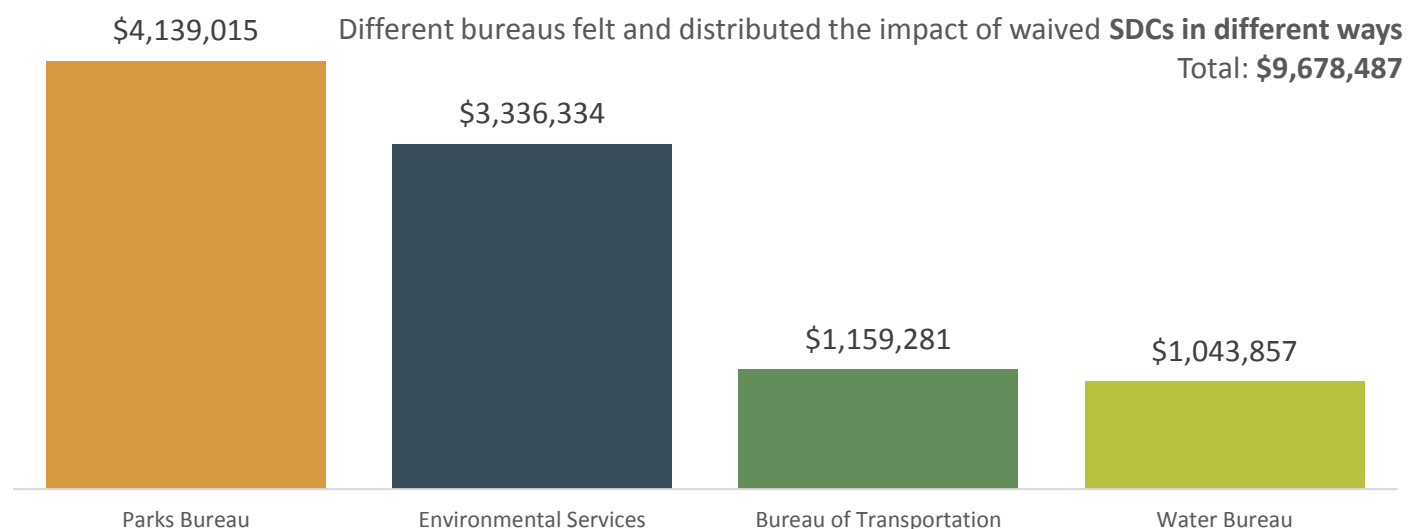
Who subsidizes this revenue loss?

Bureaus transferred the \$9.7 million cost of providing the FY 2015-16 waivers to Portlanders in different ways. Utility bureaus (Environmental Services & Water Bureau) reported that these costs are transferred to

ratepayers through utility rates and charges, as SDCs support reimbursement for existing infrastructure and reduced revenue must be recouped from some other source. Parks and PBOT, on the other hand, adjust for this revenue loss through service level changes: either by reducing the quantity of parks acquired and constructed or reducing the planned infrastructure increase.

Parks and BES waived the largest SDCs for ADUs. Water waives a proportionately larger amount for ADUs than for affordable housing development.





| <i>Bureau</i> | Home Owner | Rental Program | ADUs Waivers | TOTAL |
|---------------------------------|--------------------|-----------------------|---------------------|--------------------|
| <i>Parks Bureau</i> | \$985,106 | \$1,768,629 | \$1,385,280 | \$4,139,015 |
| <i>Environmental Services</i> | \$728,310 | \$1,481,560 | \$1,126,464 | \$3,336,334 |
| <i>Bureau of Transportation</i> | \$317,394 | \$599,007 | \$242,880 | \$1,159,281 |
| <i>Water Bureau</i> | \$248,737 | \$92,274 | \$702,846 | \$1,043,857 |
| Total | \$2,279,547 | \$3,941,470 | \$3,457,470 | \$9,678,487 |

City-Specific Taxes

The City levies a construction excise tax for affordable housing. The City's affordable housing tax became effective on August 1, 2016. It is a 1-percent charge on all residential and commercial projects with a valuation of at least \$100,000. It pays for the production and preservation of housing for people with incomes at or below 60% of AMI, as well as developer incentives for inclusionary housing, and State of Oregon homeownership programs. The tax does not apply to projects valued at less than \$100,000, accessory dwelling units, affordable housing for people at or below 80% of AMI, or a variety of other uses such as schools, hospitals, and religious facilities, among others. While these charges are neither review fees, nor SDCs, they also add to overall project costs, and are direct City-imposed costs.

The City also charges a Local Transportation Infrastructure Charge (LTIC) on infill residential development on curb-less streets to cover the cost of improving unimproved streets. The LTIC is helpful but insufficient in addressing Portland's infill and under-improved streets problem and PBOT will continue to work toward initiating the next phase of the project to develop a Comprehensive Neighborhood Street Program⁷. The rate of the LTIC is dependent on the linear foot of frontage multiplied by the average actual cost to the City to build local street improvements. The LTIC is adjusted annually to account for inflation and may be adjusted periodically to reflect the City's actual cost of construction on recently-completed local street improvement projects⁸. The LTIC became effective June 2016 in response to the neighborhoods and development

⁷ Portland Bureau of Transportation Local Transportation Infrastructure Charge Project.

<https://www.portlandoregon.gov/transportation/68843>. Accessed March 22, 2017

⁸ Portland City Ordinance 187681

community as a way to provide development more predictability in costs and review timelines, and a way to create a fund for improving streets when a waiver of remonstrance was not enough.

Regional or State Surcharges or Taxes

Some additional charges—such as the State surcharge on all building, mechanical, electrical, and plumbing permits, the Metro Construction Excise Tax, and school construction excise taxes apply equally to projects throughout the region and/or school district. The City applies and collects these fees, but does not set or manage them. As the City has limited to no control over these charges and taxes, this analysis does not address these types of costs.

Existing Fees and Process: What the Development Community is Saying

The development community⁹ was interviewed to determine how fees and charges influence their decision making and help inform recommendations to make fee or process changes. Overall, information from the conversations implied that Portland's system of complex regulations has made the industry more sensitive to imposed costs, direct and indirect. Thus, while the conversation may focus on fees and charges – and developers state that costs do play a role in developer decision-making – it is the underlying regulatory environment and development process that more significantly drives developer decision-making.

Conversations illuminated a number of key points:

1. **Regulations such as rental ceilings have a significant impact on financing.** Housing development does not spring up overnight, it often takes years to complete a project. During that time, the macroeconomic environment can change. If a pro forma¹⁰ was developed during an economic boom, like Portland is currently experiencing, rents will be projected at a higher price per square foot. If the building completes during an economic downturn, inevitably the price per square foot that the building will rent or sell for will be lower. The financing for the building was based on a higher price per square foot and it will be necessary for the building owner to be able to catch up on the lost revenue that accrued from the difference between the pro forma price per square foot and the market rate price per square foot at time of completion. For this reason, price floors and ceilings can lead to market distortions in the future and cause larger problems such as bankruptcy. Developers typically start developing financing significantly before contacting the City for actions such as Early Assistance.
2. **Inclusionary zoning is an example of a regulation that has increased both complexity and costs.** While Portland may have regionally competitive SDCs, surrounding jurisdictions do not have an Inclusionary Zoning policy. Multiple members of the development community commented on the difference in how easy it is to do business with local suburbs when compared to Portland, and a local lender expressed that surrounding jurisdictions are leveraging ease of business to promote development in their community. One interviewee noted that the program may have too many sticks, but not enough carrots.
3. **Design Review has been cited as a more time intensive part of the process.** The overarching message has been that Design Review (formal, based on the Design Overlay Zone) is subjective and that the design review committee has creeping scope. Recommendations for improvement from the development include requiring the committee members to tie their recommendations to specific codes, and limiting the number of hearings to save time for the applicant as well as not hold up the process for additional applicants, and reducing the number and types of projects that are subject to the Design Review process. A specific example of how to move more affordable housing through the

⁹ Please see appendix for full list of those interviewed and the list of questions.

¹⁰ Proformas outline initial assumptions and plans for development projects.

process was to explore options related to a “consistently prepared applicant” program for qualifying design teams, similar to an existing program in Seattle. Portland Housing Bureau has explored this option, but encountered concerns. Further, the Design Overlay Zone Assessment (DOZA) final recommendations will be published April 3rd. The preliminary recommendations echo the developer community sentiment.

4. **Portland is competing in new ways for development.** Not only is Portland competing with immediately surrounding areas for development; Portland is now competing nationally. Developers seek financing outside of local lenders partially because the projects are larger and expensive. Institutional funds are mobile and lenders currently look for at least 5.5% rate of return; local projects must present competitive ROI. Lenders have a fiduciary duty to examine where the return is the greatest but also consider what will be the easiest market to work with. As such, it is important that the City look attentively at not only how it compares locally in terms of ease and cost of housing development, but also nationally.
5. **Capacity, consistency and communication are essential to success.** Interviewees noted that permit review times have significantly increased in the past two years and raised concerns about staff capacity and the benefits of on-going training and staff development. Interviewees also noted that new items, that were present in initial submittals would pop up on second or third checklists and/or that approaches that worked in an analogous situation may not be approved in another. Providing staff with the resources needed to complete thorough initial reviews, and ensuring that staff has time and access to current training and technologies will help move projects through the process. Delays during the permit review process can have a negative effect on project costs and financing.
6. **The City has competing regulatory priorities.** In the development process applicants can encounter conflicting bureau requirements, which are often highlighted by the challenges of developing in a built-out environment. Though bureaus work to resolve issues, this can often increase the amount of time projects spend in review. It could be useful to prioritize certain regulations to provide applicants with a better sense of what must be delivered and to help improve review times.

Costs and Benefits of Potential Fee or Charge Reductions¹¹

In his February 1, 2017 memo, the Mayor asked that OMF and CBO “work together with bureaus to identify potential mechanisms to alleviate costs to encourage and enable the faster production of housing, including the waiver of fees for the cost of affordable housing (as defined through the System Development Charge exemption) and reduction of fees for the cost of other “workforce” residential development (as defined in the Construction Excise Tax exemption).” To this end, this report assesses the impact of potential fee and charge reductions on 1) City bureaus; 2) housing development projects; 3) Portland housing supply in general.

This analysis finds that while additional fee waivers or SDC exemptions will result in a marginal benefit to development projects, it is unlikely that the benefits will be sufficient to encourage faster or more prolific housing supply, and the cost of such reductions would be disproportionately burdensome for City operations. Instead, this analysis suggests focusing on specific process improvements that have a better chance of accelerating housing development, and suggests further investigation into opportunities to alleviate costs incurred as a result of the City’s complex regulatory framework. These conclusions are explained through the below analysis.

¹¹ Tables showing the review fees and SDCs required for three sample projects are provided after the SDC Portland Housing Supply Impact Section. These tables show the variety of reviews and fees needed to approve a project and the fees associated with those reviews.

Costs and Benefits of Reductions in City Fees

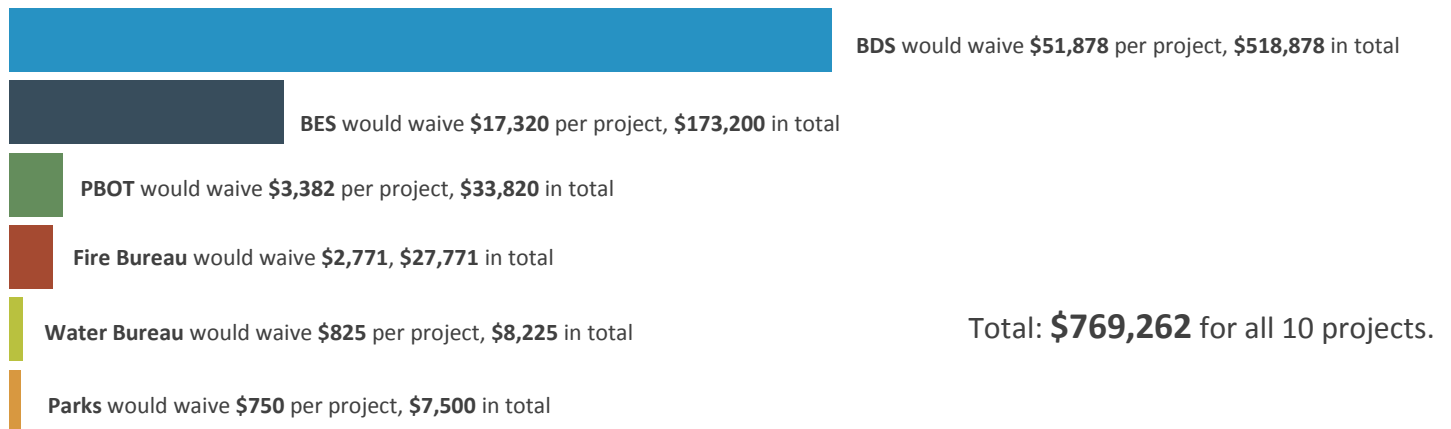
To address the Mayor's request to analyze the impacts of fee reductions to promote and accelerate affordable housing development, this analysis includes a potential 25% reduction in permit review fees for just the anticipated City-funded affordable housing projects (scenario #1a) as well as all affordable housing projects (scenario #1b). Affordable housing projects are already eligible for full SDC waivers, as well as CET waivers; thus, the primary fees remaining that the City controls are permit review fees.

To address the Mayor's request to analyze the impacts of fee reductions to promote and accelerate workforce housing development, this analysis considers the impact of both a 5% and a 10% reduction in permit review fees for all multifamily development projects. Although the recent passage of the CET will provide the ability to track housing projects up to 80% AMI in the future, there is no data or method currently available to assess the potential scope or impact of fee reductions on this subset of the housing market. As such, this analysis looks the impacts of fee reductions on multifamily projects as a whole.

Reduction Set #1a: Reduce permit review fees by 25% to PHB Case Managed Affordable Housing Projects

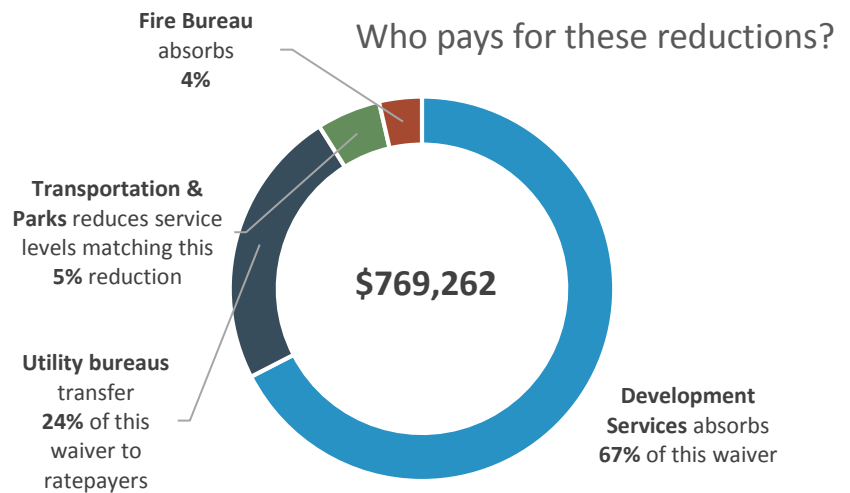
Reducing review fees for the 10 anticipated PHB-funded affordable housing projects in FY 2016-17 would result in fee waivers totaling \$769,262, as shown in the graph below.

Development Services would forgo the most revenue, and proposes to internally absorb the impact.



Bureaus would balance lost revenue (shown in the figure to the right) through different mechanisms if General Fund is not used to backfill the forgone revenue.

Currently, BDS reserves exceed goal levels by several millions of dollars. Thus, BDS feels it could offset this level of revenue loss with minimal to no service impacts for a limited duration. As the bureau forecasts declining reserves over the next five years, however, the bureau would likely need to increase fees on other customers to maintain service levels should this reduction be maintained for several years. This action would fund 67% of the cost of the reduction.



The Bureau of Environmental Services and the Water Bureau have additional options, which include addressing the revenue shortfall by making up foregone revenues with rates and charges dependent on input from stakeholders (Citizens Utility Board and Public Utility Board). Alternatively, the bureaus could reduce service levels or reduce the investment in capital projects. This would fund 24% of the cost of the reduction.

PBOT and Parks would request transfers from the General Fund to offset this reduction. Alternatively, PBOT would analyze raising other permit fees to subsidize this reduction.

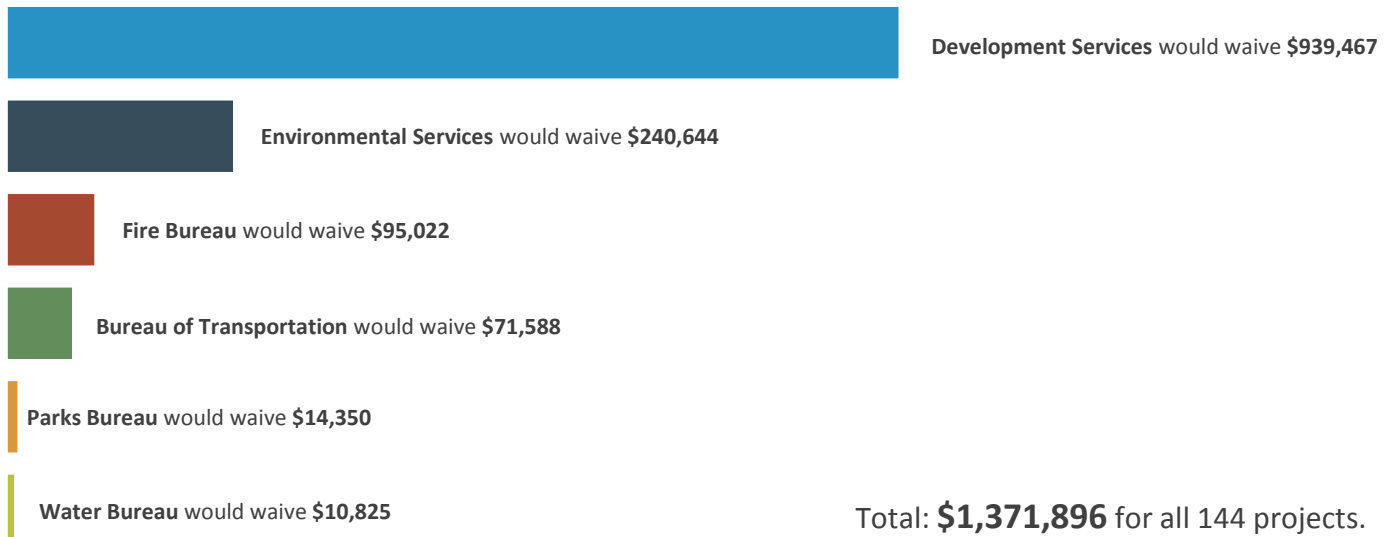
The benefits of these reductions would be accrued to the 10 PHB-funded affordable housing development projects. The savings incurred would represent 0.77% of the cost of each project. It is highly unlikely that this cost savings will significantly impact the speed with which these projects will be developed¹² and, as such, does not appear worth the burden that would be borne via rate increases, service reductions, or General Fund costs.

¹² These projects are already receiving case management and process prioritization to expedite review timelines. Financial challenges typically affect project timelines as they relate to tax credit and other outside funding source requirements, which generally comprise a much larger portion of the projects' total costs and is presumed to not be affected by a cost decrease of less than 1%.

Reduction Set #1b: Reduce permit review fees by 25% for all affordable housing projects

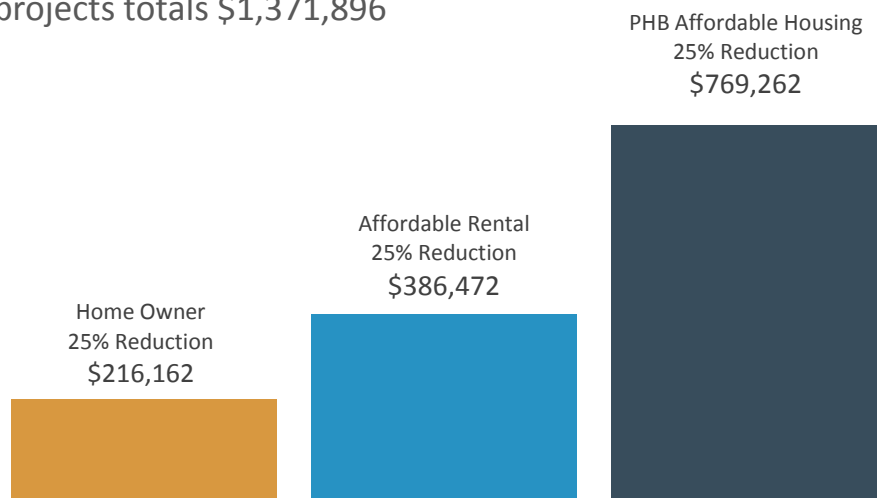
Bureaus analyzed a hypothetical scenario of 128 Home Owner and 6 Affordable Rental projects with the purpose of analyzing the financial impacts of fees reductions for properties that are already eligible for affordable housing SDC waivers¹³. As this scenario explores the impact of the fee reduction on all affordable housing projects, this scenario also includes the costs listed in scenario #1a for the 10 PHB-funded projects.

Development Services would forgo the most revenue in a 25% review fees reduction to **all** affordable housing



Reducing review fees for all affordable housing projects by 25% would result in fee reductions totaling \$1,371,896. This amount would be distributed across bureaus in the form of a \$939,467 (68.5%) waiver from Development Services, \$240,644 (17.54%) from Environmental Services, \$95,022 (6.9%) from the Fire Bureau, \$71,588 (5.21%) from the Bureau of Transportation, \$14,350 (1%) from the Parks Bureau and \$10,825 (0.8%) from the Water Bureau.

A 25% Reduction to all affordable housing projects totals \$1,371,896



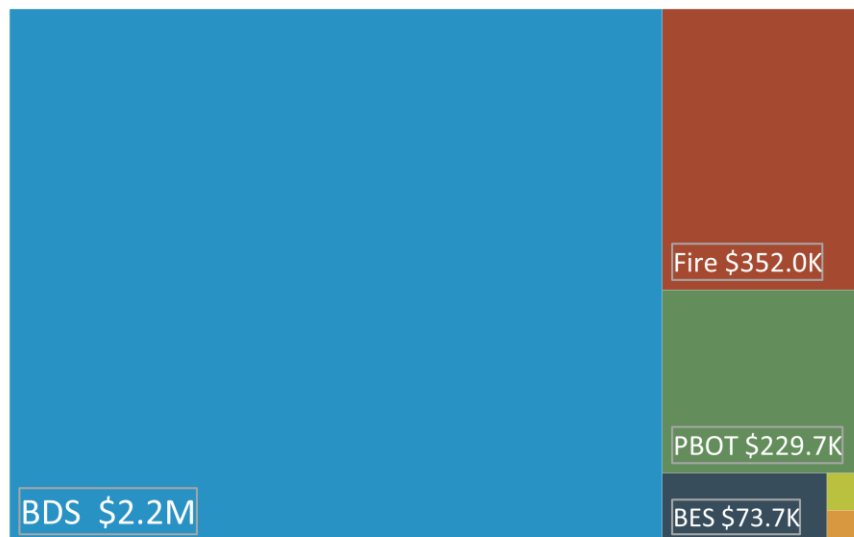
The total waived amount per program would add to \$216,162 for the Home Owner program and \$386,472 for the Affordable Rental waiver. When incorporating the 25% fee reduction to PHB case-managed affordable

¹³ The average valuation assumptions are \$195,000 for Home Owner and \$10M for Affordable Rental projects. Each Affordable Rental project is assumed to contain 64 units. PHB case-managed Affordable Housing projects are estimated to include 64 units.

housing projects analyzed in Reduction Set #1a, the total waiver adds to \$1,371,896. The estimated per unit reduction by program is therefore \$1,605 for the Home Owner waivers, \$2,314 for the Affordable Rental program and \$1,202 for PHB case-managed affordable housing projects.

Reduction Set #2: Waive 5% or 10% the review fees to multifamily developments

BDS would bear 76.6% of the **total \$2.87M** burden in the case of a 10% reduction.



Using FY 2015-16 data, reducing review fees for all multifamily developments by 5% and 10% would result in fee waivers estimates totaling \$1.43 million and \$2.87 million, respectively. The chart on the left shows the distributive impact of the 10% reduction; the 5% reduction is simply half the impact.

For BDS, the expected revenue loss will negatively affect cost recovery and service levels. With time, this reduction would also negatively impact staffing levels and consequently increase review timelines.

The Bureau of Environmental Services offers two options to recover the lost revenue; either through rates and charges or adjust the methodology to increase permit fees to other developers. The Water Bureau would propose to recover through rates and charges. Parks would request General Fund resources to recover the lost revenue.

The benefits of reducing review fees to market rate development are very small; both as a proportion of total fees and total costs.

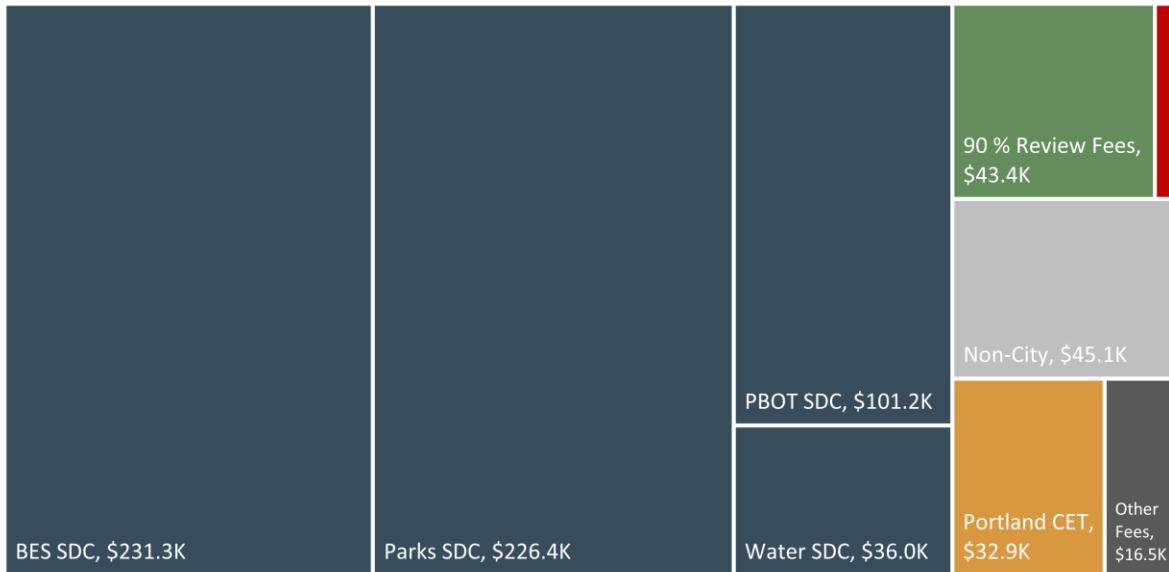
Two commercial buildings already developed in Portland were used to estimate the effects of Reduction Set #2.

- *Building #1* is a 4-story commercial building with a project valuation of \$4.2M and a land cost of \$900K. Following the current fee schedule, this building would pay \$48,241 in permit review fees and \$738,575 in total government imposed costs¹⁴.
- *Building #2* is a 6-story commercial building for rental apartments with a project valuation of \$6.3M and a land cost of \$410K. This building would pay today \$71,668 in permit review fees, \$916,875 in total government imposed costs.

Testing the 5% and 10% review fee options with the two commercial buildings with rental units showed the effects explained in the charts below. In *Building #1*, a 5% reduction would have reduced permit review fees by \$2,839, generating a 0.38% decrease in total fees from \$738,575 to \$735,736. A 10% reduction in permit fees would produce a \$5,677 reduction in total fees, a 0.77% decrease from \$738,575 to \$732,898. In the case of the larger 6-story *Building #2*, the reduction effect is accentuated. A 5% permit review discount would have reduced this building's total fees by \$4,241, a 0.46% reduction from \$916,875 to \$912,634. A 10% permit review discount would reduce total fees by \$8,481, a 0.93% reduction from \$916,875 to \$908,394.

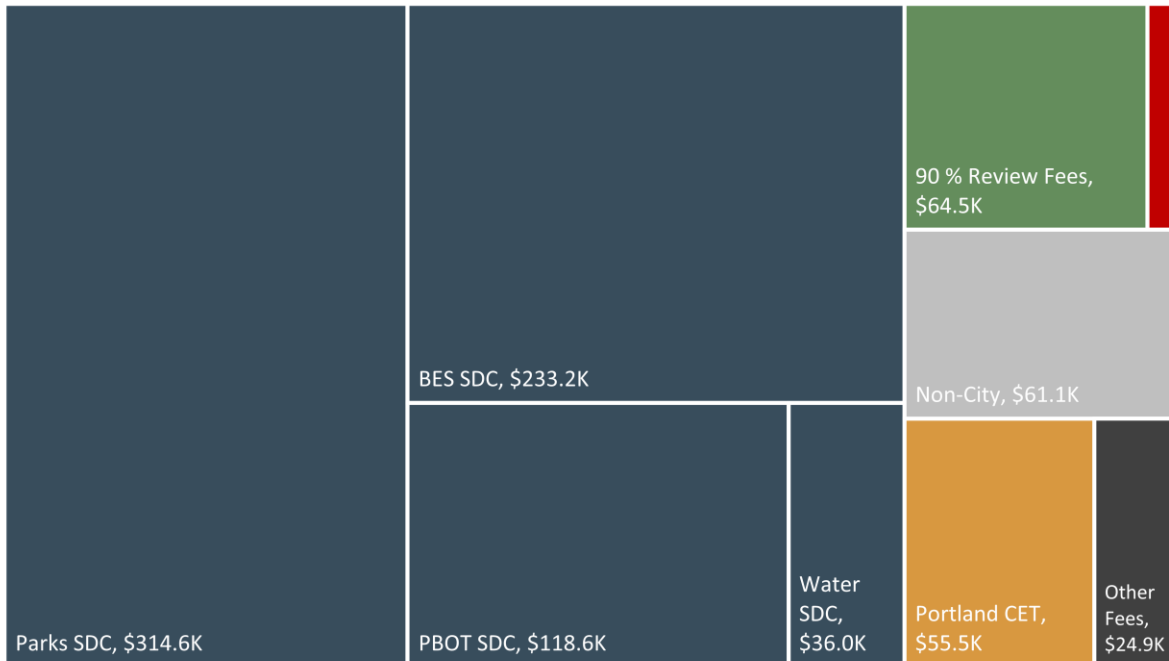
¹⁴ This calculation includes SDCs, permit review fees, PHB CET and non-City building permits, Metro Excise Tax and the School CET.

For *Building #1*, a **10%** discount would produce a **0.77%** reduction in total fees (\$5,677)



10% review fee reduction produces a **0.77%** decrease in total fees

For *Building #2*, a **10%** discount would produce a **0.93%** reduction in total fees (\$8,481)



10% review fee reduction produces a **0.93%** decrease in total fees

| | 5% | 10% |
|--|----------------------------------|----------------------------------|
| | Review Fee Reduction | Review Fee Reduction |
| <i>Building #1 - 20th & Couch</i> \$4.2M Rental Apartments Building | 0.38% Reduction of Total Fees | 0.77% Reduction of Total Fees |
| <i>Building #2 - 33 NW Park Ave</i> \$6.3M Rental Apartments Building | 0.46% Reduction of Total Fees | 0.93% Reduction of Total Fees |

The effects on total costs for development as a measure of project feasibility are even more conclusive¹⁵. A 5% discount on permit review fees would have had a 0.05% effect on total costs for *Building #1*, from \$5,838,575 to \$5,835,736. In turn, adopting a 10% discount on *Building #1* would result in a 0.1% reduction in total costs, to \$5,832,898. Similar to the analysis of consequences on total fees, the increasing effect moderately accelerates on the larger property. For *Building #2*, a 5% discount would generate a 0.06% reduction in total costs from \$7,626,875 to \$7,622,634, and a 10% discount generates a 0.11% reduction in total costs to \$7,618,394.

| | 5% | 10% |
|--|---|---|
| | Review Fee Reduction | Review Fee Reduction |
| <i>Building #1 - 20th & Couch</i> \$4.2M Rental Apartments Building | 0.05% Reduction of Total Development Costs | 0.1% Reduction of Total Development Costs |
| <i>Building #2 - 33 NW Park Ave</i> \$6.3M Rental Apartments Building | 0.06% Reduction of Total Development Costs | 0.11% Reduction of Total Development Costs |

The burden of both 5% and 10% reduction in fees are substantial for BDS and permit review bureaus’ operations. These fees fund the staff conducting permit reviews and would have a small effect on development. This decision is expected to negatively impact review timelines, an area that this study recommends to prioritize. The fee reduction is negligible in the scope of total costs borne by the developer and is very unlikely to influence project viability or substantially shift ROI.

¹⁵ Total costs are calculated as the aggregation of land value, development project valuation, City-imposed fees and non-City imposed fees.

Costs and Benefits of additional SDC waivers

As evidenced in the graph on page 5 of this report, SDCs represent the bulk of City imposed costs ranging from 60% to 85% and therefore is the mechanism where a cost adjustment is most likely to have a positive development impact.

Impacts of System Development Charge Reductions

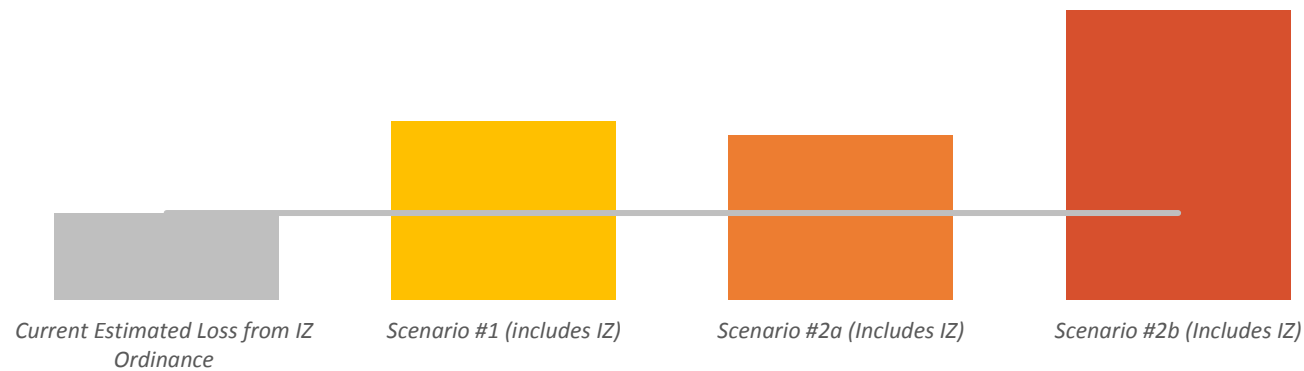
Using analysis and assumptions¹⁶ previously constructed during the Inclusionary Zoning analysis, the financial impacts from two policy scenarios were estimated by multiplying projected annual housing units by the average SDC revenue for each bureau.

Scenario #1: *Expand SDC waivers to include all affordable housing units up to 80% AMI.* Given that the Inclusionary Housing ordinance incentivizes 0-60% AMI through the use of SDC waivers, our assumption is that expanding the waiver to 80% AMI will make developers all select the 80% AMI option, which would double the number of units (from 382 to 764) that would be exempted (from 8 or 10% of units under the 60% AMI option to 20% under the 80% AMI option).

Scenario #2: *Provide an across the board discount on SDCs for all housing development for the next two years at 10%(2a) and 25%(2b).* Again, assuming perfect participation in the Inclusionary Zoning program, this presumes 8% of housing units will receive full SDC waivers (per the Inclusionary Housing Ordinance) and the remaining 92% of housing units will receive a discount on SDCs.

City Impact

The City Wide Impact of Expanding SDC Waivers or Providing Discounted SDC Waivers Means an Additional \$6.1M-\$16.1M in Annual Forgone Revenue

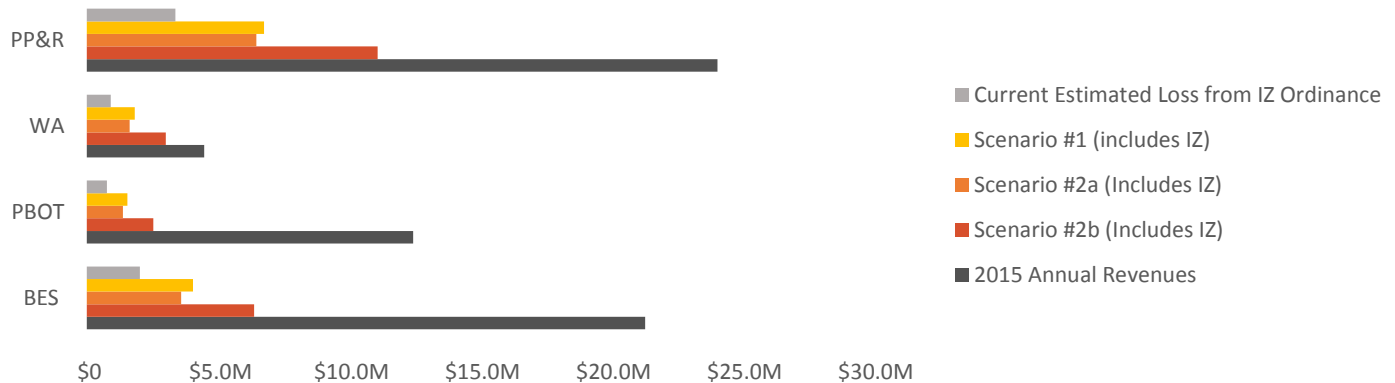


¹⁶ Assumptions: 72,587 total units (3,820 annually) produced by 2035 to achieve goal, Under IZ Ordinance it was assumed that all of the affordable housing would meet 60% AMI criteria leading to 382 affordable units/year.

Bureau Specific Impact(s)

It is impossible to generate *exact forecasts* for how each policy scenario would impact SDC revenues by bureau. However, by using 2015 actual SDC revenues juxtaposed with the projected impacts, we can better understand how these scenarios might impact each bureau.

Revenue Loss from SDC Policy Changes Compared to 2015 SDC Revenues Differs Significantly by Bureau



The following table shows the estimated financial impact of each policy scenario as a percent of 2015 SDC revenues.

| Bureau | Estimated percent of 2015 SDC Revenues lost from SDC Scenario #1 | Estimated percent of 2015 SDC Revenues lost from SDC Scenario #2a | Estimated percent of 2015 Revenues lost from SDC Scenario #2b |
|--------|--|---|---|
| BES | 10% | 9% | 22% |
| PBOT | 6% | 6% | 14% |
| WA | 20% | 19% | 47% |
| PP&R | 14% | 13% | 32% |

Example: Bureau sensitivity to the policy scenarios is because the policy scenarios is dependent on the composition of SDC revenues as well as the methodology used to calculate SDCs. A change in housing SDC policy will have much larger effects on some bureaus than others.

| | |
|---|--|
| The estimated impact to PBOT SDC revenues from the policy changes ranges from 6% to 14% | The estimated impact to Water SDC revenues from the policy changes ranges from 19% to 47%. |
| PBOT's methodology distinguishes between residential and commercial land use with rates that reflect the anticipated cost for transportation facilities needed to serve new development and the people who occupy or use the new development. | The Water Bureau does not distinguish between residential and commercial land use directly. The methodology charges by meter size. |

| | |
|---|--|
| The demand for transportation infrastructure will go up significantly from commercial development versus residential. | |
|---|--|

To provide more context for these reductions, bureaus provided high level feedback in terms of how they would handle a reduction to SDC revenues:

Bureau of Environmental Services and Portland Water Bureau

Both bureaus would consult with the Citizens Utility Board and Public Utility Board before moving forward with any of the following strategies.

1. Recover forgone revenues through rates and charges
2. One-time decrease in spending of operating dollars (*equal to reduced SDC revenues; specific program reductions unknown*)
3. Decrease in 5-year CIP spending (*reduction of \$y revenues results in decrease of \$z to CIP; generally, z = 10y; specific project reductions unknown*)

Portland Bureau of Transportation

Reductions in revenue impact PBOT's ability to serve growth. Any reduction in revenue would further shift the burden of accommodating transportation growth onto the City, specifically onto PBOT, as the City's tax revenue supplies PBOT very little funding for capital performance enhancing and capacity projects. PBOT would need to identify additional revenue stream for this loss in revenue (general fund allocation, new tax, shift the burden to other development types by increasing their rate, etc.). Of the 59 projects on the updated TSDC list, 34 rely on SDC funding at an amount less than \$2.5M.

Portland Parks & Recreation

For scenario #1 & #2a, additional (to IZ) reductions of approximate \$3M reduction in SDC revenue means that PPR would not be able to implement needed future park acquisitions and developments, including expansion of capacity at existing parks, and development of new parks to meet service needs for the 20% of households across Portland who are not within walking distance of a park. This reduction would also mean that PP&R may need to look at delaying the start of previously announced projects, like the development of Phase I of Parklane Master Plan or Errol Heights Park.

Scenario #2a would reduce SDCs by an additional \$7.7M per year beyond IZ. Providing a 25% SDC reduction on all housing in addition to the 100% exemption for 0-6% affordability would mean a negative balance for the Parks SDC program in FY19, of \$1.2M.

PP&R has announced project funding for most projects in FY18 and FY19. PP&R would need to reduce or remove SDC planned project funding, and would likely try to do so in a way that would not impact projects already underway.

This level of revenue reduction would significantly reduce PP&R's ability to build out currently undeveloped parks within the next five years. There are a number of undeveloped properties, but for example, properties like SE 150th and Division, and Mill and Midland, which are currently being planned

with the community will remain undeveloped for the foreseeable future. Almost 3,000 households are within the ½ mile service areas of these three properties.

This could also mean that development of the planned inner southeast community center, which would serve almost 80,000 households, would also not move forward in the near future. A project of that scale would likely require multiple funding sources, including System Development Charges, to be realized.

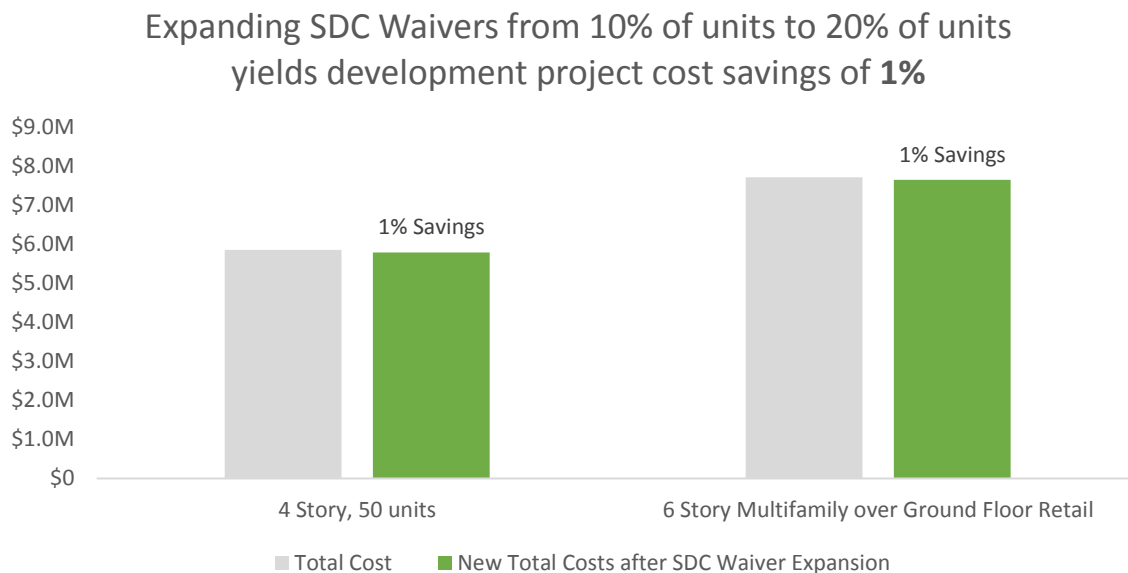
Housing Development Impact

To better understand the *potential* benefit to developers of SDC Scenario #1, the total cost savings for expanding SDC waivers from 10% of units (IZ baseline) to 20% of units (full conversion) was calculated for two actual 50 unit building developments. This expansion, reduced the total cost borne by developers 1% for each project.

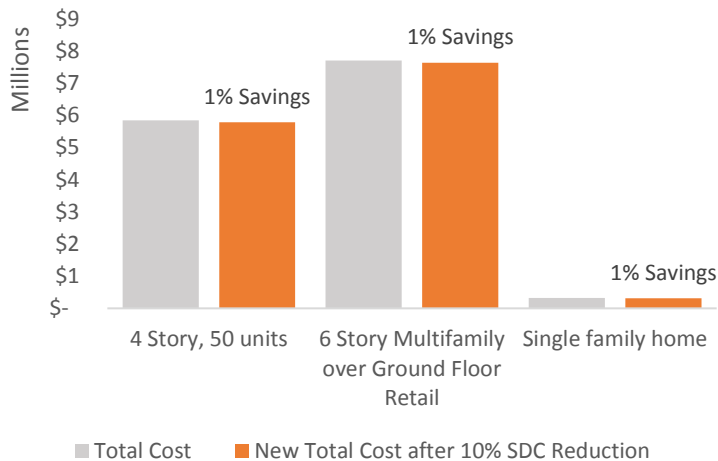
To better understand the *potential* benefit to developers of SDC Scenario #2 & #2a, the total cost savings after a 10% and 25% SDC reduction was calculated for three projects:

- Reducing SDCs 10% saved developers approximately 1% of total costs for each project
- Reducing SDCs 25% saved developers approximately 3% of total costs for each project

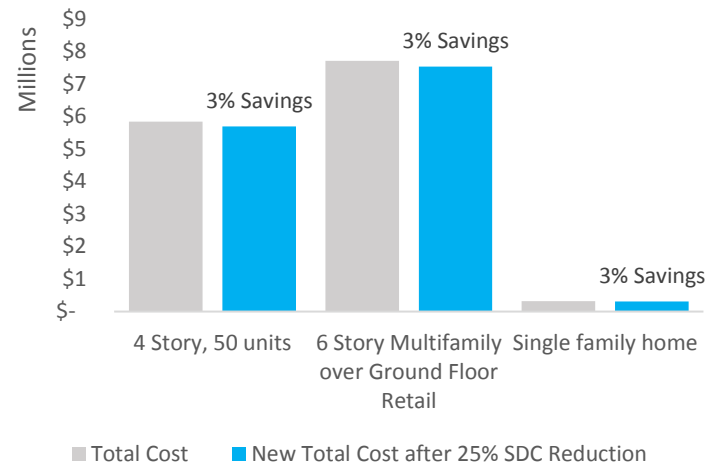
Charts displaying the impact of each of these scenarios are provided below:



10% SDC Reduction Yields Development
Project Cost Savings of **1%**



25% SDC Reduction Yields Development
Project Cost Savings of **3%**



Portland Housing Supply Impact

To analyze the impact SDCs have on housing supply, it is best to start with understanding the relationship between housing prices and SDCs. Existing research consistently finds a positive relationship between system development charges and increased housing prices¹⁷¹⁸¹⁹²⁰.

Jurisdictions that charge SDCs have more resources to provide infrastructure which is associated with increased home values. In strong housing markets, where regional alternatives are less attractive consumers are willing to pay higher prices²¹. When desirable jurisdictions charge SDCs there is more flexibility for developers to pass the cost of the SDCs onto consumers, and not bear the full burden of the SDCs.

Feedback from the development community acknowledges that in a strong housing market many of the costs, including SDCs, can be passed on to consumers because rent and housing prices in Portland are very high. SDCs are part of total costs, which means if a particular ROI is necessary to secure financing, revenue must increase to offset SDCs. This dynamic also contributes to rising housing prices.

The effect of SDCs on ROI is real but alone is not sufficient to bridge the gap between a project that is coming in at 4.9% ROI when it needs to be 5.5% ROI for financing. For projects where SDCs represent the distinguishing factor of viability, they will likely be considered financially risky and would be charged a higher interest rates, eliminating the financial gain from reducing SDCs

In isolation, SDCs and their reduction have a negligible effect on housing supply; however, the regulatory environment adds additional challenges making developers more sensitive than they otherwise would be to all other costs, direct and indirect. As previously mentioned, the development community has cited: Inclusionary

¹⁷ Ihlanfeldt, Keith R., and Timothy M. Shaughnessy. 2004. "An Empirical Investigation of the Effect of Impact Fees on Housing and Land Markets." *Regional Science and Urban Economics*, Vol 34, Issue 6 639-661.

¹⁸ Mathur, Shishir. 2013. "Do all impact fees affect housing prices the same?" *Journal of Planning Education and Research* 442-455.

¹⁹ Delaney, Charles J., and Marc T. Smith. 1989. "Impact fees and the price of new housing: An empirical study." *AREUA Journal* 17, 1 41-54.

²⁰ Evans-Cowley, Jennifer S., and Larry L. Lawhon. 2003 "The effects of Impact Fees on the Price of Housing and Land: A Literature Review." *Journal of Planning Literature*, Vol 17, No. 3 351-359

²¹ Dowal, David. 1984 *The suburban squeeze: Land conversion and regulation in the San Francisco Bay area*. Berkeley, CA: University of California Press.

Housing, complex processes and regulations that indirectly increase costs, and design review as the primary impediments to increasing housing supply in a timely manner.

Reducing SDCs, at best, reduces costs for developers potentially reducing costs passed on to renters and homebuyers. At worst, reductions will have limited or no effect on housing prices or supply because developers will still be operating under complex regulations in Portland and face fewer challenges in Suburbs. Developers will likely continue to charge what the market will bear despite cost reductions because this both increases profit and ROI which has the potential to reduce interest rates.

While reducing SDCs *could* have a positive effect on housing development; we suspect the change may be marginal and insufficient to catalyze substantial development. The risk far outweighs the potential benefit. What we do know for certain is that reducing SDCs decreases City resources to pay for infrastructure which can indirectly widen the current funding gap and exacerbate intergenerational inequity.

| Project Description | Building Valuation | Land Use Reviews | Building Review | Public Facility | Street Use | SDCS | City CET | Non-City Fees | IMPOSED COSTS (City) | IMPOSED COSTS (City and Non-City) | Most Recent Assessed RMV | Land Cost | Total Cost |
|--|--------------------|------------------|-----------------|-----------------|------------|-----------|-----------|---------------|----------------------|-----------------------------------|--------------------------|------------|--------------|
| 1950 NE Couch: 4-story, 50-unit apartment building, on-site bike parking | \$4,200,000 | \$ - | \$ 65,406 | \$ 2,500 | \$ 3,600 | \$594,893 | \$ 33,590 | \$ 45,314 | \$699,989 | \$ 745,303 | \$ 10,556,250 | \$ 900,000 | \$ 5,845,303 |
| 33 NW Park Ave: 6-story multi-family over ground floor retail | \$6,300,000 | \$ 36,481 | \$ 96,546 | \$ 19,561 | \$ 24,897 | \$702,354 | \$ 56,568 | \$ 61,407 | \$936,407 | \$ 997,814 | \$ 17,235,800 | \$ 410,000 | \$ 7,707,814 |
| 3305 SE 11th Ave: New single-family residence, 2-story, 1-car garage on a flat lot | \$ 178,243 | \$ 813 | \$ 12,575 | \$ 247 | \$ - | \$ 23,423 | \$ 1,937 | \$ 2,541 | \$ 38,995 | \$ 41,536 | \$ 507,650 | \$ 100,000 | \$ 319,779 |

Practical Implications of Implementing Fee and Charge Reductions

Should Council decide to proceed with any fee or charge reductions, there are practical implementation factors that should be noted. These are discussed below.

Technological Challenges to Implementing Project-Specific Fee Changes

There is only one fee schedule that applies to all projects regardless of type of construction. There is no construction type identified as Affordable Housing or Market Rate Housing. In addition, International Code Council (ICC) also doesn't distinguish between affordable and market rate housing in their valuation data tables (Excel file is attached for your reference). Therefore, if BDS decides to reduce building and plan review fees, the reduction would apply to all projects and all permits.

The current Permit Tracking System (TRACS) doesn't have capabilities or infrastructure to track project based on affordability criteria. For the system to be able to track and report it, improvements are needed to be made that may require additional time and given existing poor state of the system may result in unintended negative outcomes. The bureau is exploring an option to track and report on all multifamily construction, however this will too require extensive programming in TRACS. However, given current state of TRACS any major changes to the system may create potential unexpected and unintended internal system breaks.

Timelines and Requirements for Implementing Fee and Charge Changes

Each bureau has unique notifications and authorizations required to change fee levels. Should Council wish to reduce fees, certain timelines and processes would be required. These requirements are addressed individually by bureau, below.

BDS: fee changes require undergoing a State notification process, followed by two Council hearings and 30-day period after Council adoption to take effect. Should Council wish to reduce BDS fees, actual fee reductions would likely take effect 3 ½ months after Council direction to the Bureau. The earliest fees changes may be implemented following the April 13th GATR session would be August 1st.

BES and Water: the Rate Ordinance – which authorizes residential/commercial rates for sewer/stormwater and water service, SDCs and any other permits/fees to be effective beginning July 1 – is scheduled to go to Council for a First Reading at the Utility Rate Hearing on May 18, 2017. Second Reading and Adoption is scheduled for May 25, 2017. This allows the standard 30-day ordinance remonstrance period before the ordinance (and new fees) take effect on July 1, 2017. It is critically important that rates become effective on July 1 as they are required to fund the FY2017-18 Budget. In order to meet the current schedule, BES and the Water Bureau will need to finalize numbers (for preparation and submittal of the Rate Ordinance) no later than April 19.

In addition, the bureau would expect to provide information regarding fee or charge changes to the Portland Utility Board (PUB) and Citizen's Utility Board (CUB); these groups are currently scheduled to review the Rate Ordinance in early May.

Should the Mayor or the Commissioner in Charge wish to apply a rate change after the above deadlines, the bureau could pursue a substitute ordinance or an emergency action (which would require action by early May), or consider authorizing an Updated Rate Ordinance after July 1. The latter two of these options would require City Attorney review to ensure the action is legally permissible. These options are generally not recommended by the bureau as they either 1) forgo portions of the typical public process around rate setting and/or 2) could create budget challenges or customer confusion if changes are implemented mid-year.

Parks: Should Council wish for Parks to do anything other than index their SDC fee as prescribed per code, then PP&R would need to take an ordinance to Council no later than the first week of May via Emergency Ordinance to allow for sufficient time for BTS to program fee rates into their system for a July 1 implementation date. Should the direction be to reduce Urban Forestry fees, the changes would need to be reviewed by the Urban Forestry Commission before being heard and approved by Council in time for the July 1 budget. The bureau also notes that Urban Forestry would likely require a General Fund supplement for reduced fee revenues, which would need to be incorporated into approved budget balancing in April and May.

PBOT: Should Council direct PBOT to reduce fees, PBOT would request general fund resources in the FY 2017-18 budget to obtain full cost recovery. This request would need to be incorporated into the Approved Budget in May. Should the necessary General Fund supplement not be granted, PBOT would need to raise other permit fees to subsidize the reduction, which would require taking an Ordinance to Council no later than the first week of May to ensure the new fees will take effect on July 1st.

Regulatory impacts

As alluded to in earlier sections, housing development is impacted not only by costs levied by local and regional entities, but also by complex processes and regulations. While this report focuses on the impact of City levied costs and the development process generally, it became apparent through researching this topic

that complex and evolving regulations play a significant role in affecting the speed and cost of housing development. Portland's regulations reflect Portland's community values for equity, sustainability, health, resilience, and opportunity; these values come at a cost: more complex and burdensome development process for both City employees and for developers. Balancing these two needs is a constant challenge for our elected leaders, and should be done thoughtfully and intentionally.

Strategies to Reduce Development Timelines

To determine a range of options that could reduce the time needed for development review, staff from CBO and OMF worked closely with division managers from all development services bureaus. These subject matter experts were asked to submit ideas that would save staff time or reduce the burden on customers. The group offered a range of options expected to shorten process timelines while maintaining quality and consistency of service, then ranked all proposals independently. Recommendations coalesced around several approaches, with all bureaus giving top billing to the prioritization of recruitment and hiring of key positions, and all but PBOT prioritizing the implementation of electronic plan review. Other available options are in the purview of or championed by single departments. These include the high-impact strategy of expanding online payment options to reduce customer demand on the Development Services Center (DSC), as well as minor process changes that can be implemented immediately, such as elimination of duplicate elevator sump pump review.

Two additional strategies were also developed for inclusion. The first, a recommendation to use existing leadership forums to manage the City development review goals for services, addresses a structural need for ownership and coordination of the development process. We specifically suggest formalizing the structure of the P&D Director's Meeting for this purpose. Alternatively, Council could task the members of this body to develop an appropriate forum for ongoing management of development services performance through other means. The second recommendation is to build employee capacity at the front lines of development services by referring development services employees to an existing Citywide program. The Peak Process Improvement Pilot, a partnership between CBO and BHR launched in FY 2016-17, provides a mix of training and ongoing support so that employees at all levels of the organization can identify time or money-saving innovations in their own work and foster a culture of continuous improvement.

Notably, none of the strategies outlined by our focus group propose the expansion of expediting affordable developments over other project types. City-financed affordable developments are already prioritized over other projects for land use and permit review, which extends the time required for all other customers in the queue. Additional prioritization was generally deemed to incur unreasonably negative impacts to other customers. This view was reinforced by members of the Development Review Advisory Committee and through developer interviews, who characterized additional prioritization of some projects over others as inequitable. Wary of these impacts, development review managers favored process improvements that are expected to speed timelines for all projects.

That said, one highly ranked strategy would apply a process improvement to the current case management approach for City-financed affordable projects, but has the potential to produce insights for the broader process and is included in the list below. This option proposes to apply a "review gate" for the permitting process for PHB projects, meaning that submitted plans would be routed through all review types for a first pass before becoming available for developers to provide responses. The strategy has the benefit of increasing

certainty of the total time for the permitting process for these projects, while also allowing the development review bureaus a pilot opportunity to test the review gate concept for other customer types.

Several bureaus highlighted process improvements already underway that are anticipated to decrease timelines. These actions include:

- ***Conduct pre-construction meetings in the field for PHB projects with BDS Inspections staff*** to avoid delays that may occur during construction. (BDS)
- ***Prioritize inspections of PHB projects by BDS inspections staff*** to ensure same-day inspections for these projects. (BDS)
- ***Reclass Public Works permitting position and hire experienced process manager to provide more process management and improve customer service.*** (PBOT)
- ***Update Urban Forestry's "Development Reviewer" position classification*** to align more with the work required for development review. (Parks)

Clearly, managers from the development review bureaus are constantly iterating processes to address staff workload and City development priorities. With increased executive focus on this service area, more can be done to improve development review timelines.

Given the urgent need for housing supply in the city and the multitude of promising strategies for improvement, it is tempting to enact many process changes at once. However, the staff tasked with implementing these changes are already well over capacity, not to mention currently conducting technology system upgrades and pilots. Process improvements that rely on line staff to communicate changes broadly to customers and to manage the new processes should be deployed selectively. Several options are included that would be carried out by a single bureau, and these may be more feasible to deploy simultaneously. Finally, some proposals do not directly reduce front line staff availability and could even be expected to enhance other changes. Certainly the pursuit of electronic plan review and prioritization of hiring development review staff will benefit from the ongoing focus and reporting out of a formalized P&D Directors' meeting. This management solution would also provide a forum to regularly assess the efficacy of changes through review of key performance indicators.

This report recommends implementing several options to improve development process timelines that require support and coordination of all development bureaus. These are 1) implementation of electronic plan review, 2) prioritization of recruitment and hiring, and 3) the use of existing forums to manage the coordinated development process to meet City goals for service. These strategies, along with other recommended process changes, are included in the options matrix and supporting analysis below.

Criteria for Selection

These recommendations are informed by the rank of our subject matter experts, the development review division managers from BDS, PBOT, BES, Water, Parks, and Fire), who considered the proposals according to the following criteria. Options that are highly feasible to implement in the short term are promoted, to gain impact and set the stage for longer-term efforts with the potential to transform the development review process.

| Timeline for implementation | Service Impact | Feasibility |
|---|--|--|
| <p>Options that may be implemented in the near term are favored over long in most cases, given urgency of need for housing supply. Impacts may be immediate or occur over the medium or long term. <i>Categories include:</i></p> <ul style="list-style-type: none">• Short-term (May-Oct 2017)• Medium term (1-2 years)• Long term (3-5 years) | <p>Anticipated benefits to the City, development customers, and Portlanders, <i>as measured by:</i></p> <ul style="list-style-type: none">• Estimated staff time saved for development review staff from current process.• Customer time savings, through reduced development review timelines or other mechanisms. | <p>Ease of ability to implement the option. <i>Development review bureau representatives considered:</i></p> <ul style="list-style-type: none">• Technical and administrative complexity involved in implementation.• Owner's degree of control over the option, dependency on IT staff or other bureaus.• Issue-specific anticipated issues or opposition.• Whether the option involved increased expense. |

Recommended Options Matrix

| | Proposal | Timeline | Impact | Feasibility | Cost | Owner |
|---|--|-----------------------|--|--|--|---|
| 1 | Apply a “review gate” for the permitting process for PHB projects | Short-term | Moderate. Applies to subset of projects. | High. | None. | PHB, BDS |
| 2 | Task P&D Directors to manage process to meet City development goals for service. | Short-term | High. Catalyst to other strategies | High | No direct costs, potential use of existing meeting forum. | All planning & development bureaus, Mayor, Commissioner-in-Charge |
| 3 | Prioritize recruitment and hiring to fill vacant positions in development bureaus, especially public works permitting positions. | Short & medium-term | High. | Moderate, need greater coordination to address competitive hiring market. | None for the key positions – these are existing vacancies. | All development bureaus, BHR |
| 4 | Expand online credit card payment option for Minor Improvement Permits | Short-to medium-term. | Moderate. Could dramatically reduce walk-in demand to DSC, but only applies to public works permits. | Moderate: Need assistance from BTS to provide PCI compliance; may be delayed due to TRACS upgrade. | None, relies on existing City staff. | PBOT, BTS |
| 5 | Implement electronic plan review | Medium - term | High. | Need plan for implementation. | Yes, no estimate at this time. | All development bureaus |
| 6 | Support continued pilot of Citywide <i>Peak Process Improvement</i> program | Short-term & ongoing | Low-Moderate: Development services staff part of Citywide effort. | High, existing internal service in other bureaus. | Existing program pilot; none at current levels of service. | City Council, CBO, BHR |

Recommended Options Analysis

1. **Apply a “review gate” for the permitting process for affordable projects managed by the Portland Housing Bureau.** *Short-term*

This option calls for several process changes to the City-financed affordable projects managed by from the Housing bureau, with a goal of alleviating workload on permit plan review staff and increasing certainty of project review timelines. The proposed process changes are two-fold: first, implement a "review gate" for these projects (see details below), and secondly, establish a turnaround time commitment from PHB for response. These particular projects already receive case management services and are prioritized over other types of development in the permitting process.

As noted in the GATR session in January 2017, customers of the City’s permitting process can respond to plan comments/corrections (called “checksheets”) from the City on a piecemeal basis, even though each plan must go through multiple types of review before completion of the first round of review (the number of reviews required varies). This approach is convenient for customers, who are able to respond immediately when they receive a notice from the City, but creates obvious inefficiencies for permit review staff, who must locate and consolidate the physical plans from various reviewers each time a customer submits a new correction. This creates a cycle of reviewing – and re-reviewing – plans every time the customer submits a correction.

Under a revised process using the review gate concept, customer corrections would be consolidated into a batch, which reduces the number of times each reviewer has to review the plans, and saves the disruption of pulling plans when customers submit piecemeal corrections. While the “review gate” approach would have greater impact if deployed across all projects moving through permit review, implementing the change would be challenging to communicate with customers. Piloting the concept with a defined number of projects, and in essence a single customer contact, offers an excellent way for development services bureaus to identify implementation challenges before potentially applying the change to all customers as part of the POPS implementation. The affordable housing case managed projects could provide an ideal opportunity to pilot this strategy and test impact on project timelines. The intensive communication and prioritization provided to these projects would better facilitate developer understanding and group troubleshooting of challenges when moving through the review gate pilot. If successful, development bureaus can consider rolling the review gate out to other projects with the promise of an accelerated overall city review timeline.

Finally, this option proposes a second commitment from the Housing bureau for a reasonable turnaround time to submit their bundled responses. As a component of the Affordable Housing Case Management Process, Development services staff committed to providing first review within the 20- business day timeframe. A corresponding plan for a quick turnaround from PHB project design teams creates increased certainty for work flow and keeps the project moving through the review process as swiftly as possible.

2. **Task P&D Directors to manage process to meet City development goals for service.** *Short-term*

With the central role of City development services bureaus in offering a critically important and highly complex regulatory process, there is a clear need for increased coordination and leadership accountability for the performance of the development review process. This includes ongoing assessment of progress towards City goals for development review services, as well as resolution of customer issues caused by

conflicting code or policy requirements. Development services bureaus are already responsible for these outcomes, but seem to lack the formal structure necessary to work together to achieve these aims.

One option could be to utilize the existing forum of the P&D Director’s meeting (or create a leadership team with a specific development review-based membership) to more closely manage performance of the City’s development review process. This approach would provide the sustained focus and effort needed to successfully implement the coordinated, medium-term process changes recommended in this report. A structured agenda and meeting purpose could be reinforced by ongoing reporting on City development services provided to Council on a monthly or quarterly basis. The structure of could be further codified via revisions to the Interagency Agreements governing work between BDS and other review bureaus, several of which were last updated in 2002. Standing items under this formalized structure might include items listed in a sample “meeting agenda” to the right.

This forum will also provide an opportunity revisit at a later date the additional strategies that, though promising, were not selected as recommendations in this report for various reasons (see “Options *Not* Selected” section below).

Development Review Process Meeting Agenda

- Review of development process KPIs (such as permit throughput and review turnaround times).
- Review staffing levels in work groups (e.g., monthly progress to reduce vacancies, number of positions added).
- Review resolution of customer conflicts between bureaus (these may need to be resolved at a separate forum if highly time-sensitive).
- Share management innovations that are saving time or money.
- Review progress on technology implementations.

3. Prioritize recruitment and hiring to fill vacant positions in development bureaus, especially public works permitting positions. *Short & medium-term*

With workload at an all-time high, planning and development bureaus generally have the resources and have been granted the position authority to hire the staff needed to handle work coming in each day. The missing link is the ability to recruit and hire qualified staff into these new or existing positions. As of March 2017, development services bureaus report 22 total vacant positions impacting the development review process. This number includes 16 in BDS, five in PBOT, and one in Parks. BES is also requesting to create two new positions in FY 2017-18. All together, these vacant positions impact the following parts of the development review process (a position can impact more than one process):

- Vacancies impacting *the building permit process*: 10
- Vacancies impacting *public works*: 16
- Vacancies impacting *the land use review process*: 10
- Vacancies impacting *early assistance or pre-apps*: 9
- Vacancies impacting *support for all functions*: 5

When positions go unfilled, bureaus utilize overtime to handle the workload. In the first half of this fiscal year, PBOT development review staff worked 1845 hours of OT, costing \$130,000. Annualized, this number

reaches \$260,000 and 3,690 hours. For this cost, they could hire nearly three new FTE, and work 59% more hours than currently worked in overtime.

What actions can bureaus and BHR do to prioritize recruitment and hiring for key positions? The specific needs and requests vary for each bureau, but any feasible next steps should be addressed by bureaus or BHR as soon as possible. More broadly, vacancies should be regularly reviewed across all work groups. Planning and development bureaus should set a goal for a number of vacancies to be filled by end of October 2017. Progress to resolution can be reviewed as a group on a frequent (at least monthly) basis and reported to the Mayor and Commissioner-in-Charge. The following tactics could be considered to fill vacancies more quickly:

- Hiring. Bureaus are already implementing creative solutions to increase their own capacity for hiring. BDS, in particular, has hired 101 employees into available positions since June of 2016. The bureau will soon be deploying VidCruiter, a recruiting software that allows managers to more efficiently screen applicants without sacrificing the bureau's commitment to hiring quality candidates and diversifying its ranks. BDS has also paid for a dedicated HR analyst for the last two fiscal years through an IA with BHR.
- Recruitment. Bureaus should work with BHR to assess the City's current recruitment strategies for these positions and update these efforts, if needed. Given the tight competition for talent with the private sector in the Portland area, development services bureaus might consider a recruiting strategy to target out-of-town prospects on a variety of platforms.
- BHR plays a key role in this effort. That bureau has recently completed a process improvement assessment of their recruiting process, and will be sharing these findings in an upcoming report. It may be helpful for bureaus to identify the specific actions needed from BHR to advance the recruitment or hiring process for the 24 vacant positions noted above. Additionally, BHR offers open and continuous recruitment for some positions in the development review process. If this approach offers improved results, the City may consider applying this policy to additional positions.
- Training takes staff and management time as well. Bureaus that have successfully streamlined their onboarding processes could share these innovations with the other development bureaus. Divisions like Urban Forestry have worked to make procedures more accessible for staff despite complex code requirements.
- Prioritization refers both to the level of focus from bureau leadership and level of responsiveness from BHR. Many of these positions are open in bureaus in which development services is not their primary function. Sustained effort on this issue by all parties involved will be key to closing the vacancy gap and would be facilitated by a structured approach to management and reporting as noted above.

The level of vacant positions and reliance on overtime can be compared to the Police bureau's level of staffing as documented in GATR sessions held in 2016. Recognition of the need to fill vacant positions to meet the City's goals for service led to the Police bureau's overhaul of the hiring process, new hiring and retention incentives, targeted marketing and recruitment strategies, and a program evaluation to test messaging at key points in the recruitment process. These tactics are showing promising results over last year, with 47 sworn positions hired and 15 retained, compared to 20 sworn positions hired in all of FY 2015-16. Sworn position vacancies are also dropping for the Police Bureau, from 68 on July 1, 2016, to 54 at the time of this report. These results are encouraging. With a sustained focus on reaching stated targets and the use of data-supported strategies, this bureau has been able to fill vacancies for key positions even in a challenging recruiting environment.

4. Expand online payment processing options to include Minor Improvement Permits. *Short-to medium-term*

This action would implement online credit card payment options for a number of public works permits, to create efficiencies for staff and improve customer service. Currently, Minor Improvement Permits (sidewalks and driveways), and street use permits require customers to physically visit the permit center, often waiting for hours to meet with City staff to acquire the permit. Approximately 3000 Minor Improvement Permits are issued per year, with 1000 from over the counter “walk-in customers”. Both of these programs currently have the ability to issue permits electronically, but not the ability to collect payment electronically. Offering an online credit card payment option would be expected to reduce customer visits to the Development Services Center (DSC), and would also reduce processing time by allowing staff to batch the work more efficiently. While the option does not directly reduce processing time for other permit types, it could have a spillover effect of reducing overall customer handling time at the DSC due to the lower walk-in traffic.

This strategy is championed by PBOT and could, with BTS and BDS support, be completed over the next 6-12 months. Because this proposal may require coordination with the current TRACS upgrade, BDS and PBOT would need to agree upon an appropriate timeline to begin implementation. A second dependency is the requirement of technical support from BTS to facilitate online payment and provide Payment Card Industry (PCI) compliance. Due to the BTS’ current focus on the data center move, that bureau may lack the staff resources to support this project in the near term. However, given the urgent need to increase development services capacity, we recommend that the bureaus (BDS, PBOT, and BTS) consider an accelerated timeline to implement this proposal.

5. Implement electronic plan review. *Medium-term*

Moving from paper to electronic plan review, while requiring a large-scale, coordinated effort across all development services bureaus, offers a multitude of benefits that are expected to reduce development review timelines. At a most basic level, electronic plan review would eliminate time spent waiting for hard copies of plans to arrive at a reviewer's desk, as well as staff time physically delivering those plans to different reviewers. Electronic plan review gets corrections to reviewers more quickly, and eliminates redundant review by showing where changes have been made from previous versions. Finally, electronic plan review supports collaboration between reviewers: staff can view comments from other agency reviewers to identify and address possible conflicts. Nearly all development services bureaus ranked electronic plan review as priority option for this report due to these expansive anticipated benefits.

Electronic plan review is being piloted now, but is considered a medium-term approach (1-2 years) due to the large-scale requirements for implementation from staff that are currently managing the TRACS upgrade. Our bureau representatives recommended developing a detailed implementation plan, including: overall phase-in process, selection of software program, procurement of large monitors, training of staff, communication to customers, and creation of business practices.

There are a number of open questions regarding implementation of electronic plan review, creating uncertainty around the feasibility and timeline of this particular strategy. How much integration will electronic plan review have with the TRACS replacement? What is the capacity for development services IT and front line staff’s ability to manage multiple new processes? Minimizing slowdown of service delivery

while staff develop new protocols and learn new systems is a key consideration for how and when to deploy electronic plan review. Development review bureau leadership can look to the current pilot for insight on these questions.

6. Support continued pilot of Citywide *Peak Process Improvement* program to encourage continued discovery of process improvement innovations. *Short-term & ongoing*

This recommendation would build employee capacity at on the front lines of development services by inviting planning and development bureaus to refer staff in their plan review work groups to an existing Citywide process improvement pilot. The Peak Process Improvement Pilot, a partnership between CBO and BHR launched in FY 2016-17, provides training and ongoing support to employees at all levels of the organization to identify time-saving innovations in their own work and foster a culture of continuous improvement. The program bases its design on the hugely successful Denver Peak Academy model, which has trained over 5,000 employees and has documented \$20 million in savings to the City over the last five years. The Peak Academy program is now being adapted and replicated by cities all over the country.

Employees attending the program are encouraged to look for process improvement opportunities that are under their direct control. These changes can seem small, but cumulatively provide meaningful time savings for the bureau and cost savings for the customer.

Several options proposed by BES are perfect examples of the types of innovations this process improvement program seeks to uncover – essentially, changes that can be implemented by program staff and with existing resources. The first, BES’ suggestion to streamline the BES P3 Land Use review process by providing standard comments for non-complex reviews, would save 3-5 hours a month for BES staff. The second, an option to eliminate duplicate elevator sump pump review, is estimated to save 1-hr/month. We commend BES for using this discovery effort to look internally at which of their own processes could be improved. Referring employees from relevant work groups to this Citywide program could facilitate continued discovery of these types of time-saving innovations across all development review bureaus.

Options Not Selected

Finally, development review representatives outlined many promising strategies not formally recommended in this report due to timing and feasibility issues, but which the Mayor and Commissioners-in-Charge may wish to consider in the future. These strategies include:

| Option | Impact | Why not? |
|---|--|--|
| Requirement of early assistance meetings prior to permit submittal for projects with valuation > \$10 million | Save 23 hrs. total staff time per project, ~ 50 projects per year. | Represents additional requirement for staff. Revisit option when position vacancies in relevant work groups are reduced. |
| Improve customer training to expedite public works permitting process | Lunch & learns could be conducted by private consultants to reduce burden on City staff, strong anticipated benefits through improved plans. | PBOT already lead on the higher-ranked online permitting strategy. Revisit option when that project is complete. |

| Option | Impact | Why not? |
|--|--|---|
| Use of fee structure to incentivize complete building permit submittals | Unknown, could have wide-reaching time-saving impacts from improved plan submittals. | Challenging to communicate change to customers; difficult to estimate benefits. Revisit option when position vacancies in relevant work groups are reduced. |
| Update BES triggers for contaminated sites | Save 2-4 hours/day for BES P3 and BDS staff from current manual process. | Incurs additional risk to make this change during current TRACS upgrade, dependency on BDS TRACS team availability working on upgrade. |
| Update BES insertion rules in TRACS | Save 1 hr/day for BES staff | As above. |

Affordable Housing Case Management

On December 1, 2015, former Mayor Charlie Hales and Commissioner Saltzman convened a Government, Accountability, Transparency, and Results (GATR) session on Affordable Housing: immediate strategies to streamline the development process. As a result of strategies and action items identified in this GATR session, the Portland Housing Bureau and the Bureau of Development Services established a system of enhanced collaboration, prioritization, and case management for Portland Housing Bureau-funded affordable housing development projects.

Currently, 16 affordable housing projects are participating or identified to participate in the new affordable housing case management process; these projects include a total of 1,560 affordable housing units, have been awarded \$105 million in City funding, and comprise an estimated \$420 million in total development costs.

| Currently Case Managed Affordable Housing Projects | | |
|--|-------------------------|------------------------------|
| 16 | 1,560 | \$105 million |
| <i>Projects</i> | <i>Affordable Units</i> | <i>in City Awarded Funds</i> |

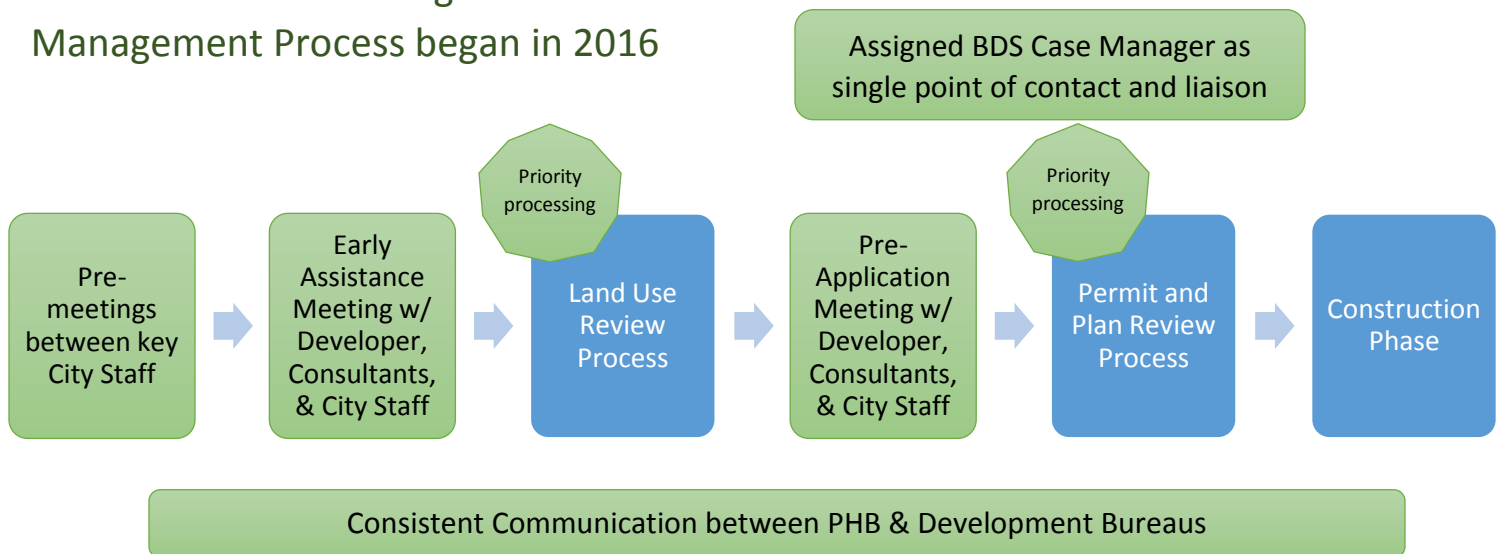
The affordable housing case management process includes the following components:

1. **Prioritization:** PHB-affordable housing projects utilize a new “check box” on their development review application that moves the project to the front of the line for land use and permitting reviews.
2. **Inter-bureau coordination:** Regular interagency meetings occur between PHB project managers and key contacts from development bureaus including BDS, PBOT, Water, BES, and BPS. Bureaus discuss and prepare for upcoming and current projects, troubleshoot process challenges, and generally share information to expedite processing.
3. **Mandatory early assistance for developers:** An early assistance meeting and pre-application meeting are required for each of these projects. In early assistance meetings, developer and consultants convene with key development bureau staff and discuss building site requirements, composition, and historical data, as well as an initial plan review. Development bureau staff research the site and developer plans before the meeting to provide relevant information, and provide the bureau with an official letter summarizing early findings and zoning or code-pertinent guidelines following the

meeting. Pre-application meetings occur later in the process, when the developer is closer to submittal of required land use applications. Preliminary meeting with Life Safety and Fire, occasionally Structural and Geotechnical staff, occur as the construction drawings progress and the development team is closer to submitting building permit applications; development plans are brought to the meeting to receive information and feedback from City staff (note: these meetings are available to all development projects for a small fee; they are mandatory for these affordable projects).

4. **Case management:** Each project has an assigned case manager from the Bureau of Development Services who shepherds the project through the permitting and plan review process, and acts as a primary point of contact and liaison between the customer and City staff working on the project.

New Affordable Housing Case Management Process began in 2016



Initial and Expected Benefits

Inter-bureau coordination on these projects began in early 2016, and 16 affordable housing development projects are currently participating in the process at various stages, with 2 additional projects scheduled to begin with early assistance meetings in coming months. While 2 permits have entirely completed the process (Oliver Station East and West), five additional projects have moved through early assistance, land use review, pre-application and are now in permitting and/or construction phases. PHB cautions that it is early to determine significant or comprehensive benefits to project timelines; however certain initial successes have been noted:

- **Improved customer service and satisfaction.** PHB notes that developers have expressed high satisfaction with the new process. This is likely due to the increased communication, coordination and support provided to the projects through early assistance and case management services, as well as having these projects prioritized for review.
- **The coordinated commitment to timeline goals creates results.** All development bureaus have agreed to prioritize the review of these projects over their other projects and the Bureau of Development Services has committed to processing the first permitting review check sheet in 20 business days. Establishing this coordinated, public commitment has thus far moved the projects more quickly

through the process, and is expected to yield measurable benefits in the permit plan review process. Bureaus have noted that this prioritization comes at the expense of delaying other projects.

- **Improved inter-bureau coordination and communication has increased process understanding and troubleshooting.** Regular meetings between PHB and development bureaus have enabled early identification and coordinated troubleshooting of process-wide and project-specific issues and challenges. PHB in particular has benefitted from these meetings, gaining a better understanding of and connection to development bureaus in order to be a more proactive liaison to the affordable housing developers they work with.
- **Early assistance has likely improved development plans.** Anecdotally, bureaus feel that most initial projects going through the process have submitted improved plans as a result of early assistance. The submission of well-developed plans greatly reduces development bureau staff time required to review plans, and speeds up the review process.
- **Timelines show some improvement through land use review processes.** Three projects have completed the land use review process; in total these projects moved through design review roughly 5% more quickly than previous projects, saving roughly one week of time.²²

Continued Process Challenges

Early results also indicate areas where there may be opportunity for improving the case management system, and elucidate challenges that should be recognized when considering overall goals and any expansionary efforts.

- **Code complexity, particularly with regards to public works, continues to create delays and challenges.** Early assistance meetings greatly help developers understand and prepare for general site and process requirements; however, some detailed site requirements are hard to identify early. Revisions required at the time these requirements are identified requires re-submittal and potential additional processing of previously completed reviews. In addition, conflicting or unforeseen code requirements may not become apparent until plans are finalized, or may be triggered by any single change to plans. These findings are often at odds with inflexible affordable housing development budgets, which are often developed as part of the funding application process which substantially precedes detailed knowledge of site and code requirements.
- **Capacity challenges at development bureaus constrain impact.** Although the coordinated commitment to prioritizing PHB-funded affordable housing projects has been successful in ensuring dedicated, rapid response from all development bureaus on these projects, it comes at a cost of attention to other projects, including other projects paying for expedited service. BDS is currently experiencing an unprecedented level of large, complex projects, requiring each case manager to carry a caseload of 50-100 projects. Additionally, case management staff can only accelerate review timelines to the extent that each bureau has sufficient plan review staff. As such, the overall impact and ability to scale case management is constrained by available staffing both in case management and in plan and permit review. As mentioned earlier in this report, the immediate staffing need for most development bureaus is not for new authorized staff, but for existing staff to be retained and for vacant positions to be filled.
- **A focus solely on City review processes may have a minimal impact on the overall project development timeline.** As highlighted above, few projects have made enough progress through the

²² GATR 2 data.

City's review process to evaluate holistic impact of the new process on timelines; however, PHB has noted that even with significantly reduced permitting and plan review timelines, the entire process required to develop affordable housing would likely very rarely be reduced to under 2 years. BDS' significant operational commitment to accelerate the first review to be complete within 20 days may reduce project development timelines by one month;²³ which, while not insignificant, represents less than 4% of typical overall process timeline.²⁴ Improvements in the Land Use review process might yield another 1-2 months in time saved.

- **Affordable housing financing poses additional hurdles.** Complexities around the financing process for affordable housing has meant that occasionally reviews that have been expedited by development bureau staff have not been acted upon by PHB or the developer in a timely manner, creating frustration for the staff working to expedite the reviews. This does not mean that the time saved is not valuable, but it draws attention to the need to address other factors – especially financing requirements – that impact affordable housing development timelines, should we wish to more aggressively speed up timelines.
- **Design review continues to present challenges to project timelines and cost.** Although early assistance and other inter-agency meetings have facilitated earlier identification and addressing of design issues, the review and rulings by the design commission continue to create uncertainty, come after significant pre-work has been done, and can significantly disrupt project timelines and costs. Following the GATR session in December of 2015, Title 33 was amended to allow for affordable housing projects to be classified as Type IIX and not require design review. However, Type IIX projects are appealable only to Council and developers have been wary to choose this process due to uncertainty around how the body may rule on the project. The design review overlay (DOZA) project has been investigating the design review process and is anticipated to release draft findings and recommendations April 3, 2017.

Recommendations for improving or scaling the current case management process

As mentioned in the sections above, any expansion of the current case management and prioritization process while keeping current resources constant will further delay other projects. Current BDS case managers manage between 50-100 large projects, and the prioritization of current PHB case management projects is anticipated to delay upcoming permit reviews of other projects by an average of 62 days, or 12 ½ weeks. Increased staffing would assist capacity but given recruitment, hiring, and training timelines, requesting additional staff for this purpose does not offer an immediate solution. For this reason, this report does not recommend a unilateral expansion of the current case management system. Numerous opportunities to scale or improve portions of the existing process are consistent with recommendations in the process improvement section above; however, some are unique to affordable housing:

Investigate other aspects of the affordable housing development process that may be within the City's ability to accelerate. Given what a small portion of the overall affordable development process timeline is dependent upon the City reviews, and given some potential timing issues between financing requirements and City processes, this report recommends that the Portland Housing Bureau be tasked with investigating and producing recommendations for other ways in which the City can encourage the streamlining of development process timelines. PHB notes that the City has limited control over much of the financing requirements that create time lags; nonetheless, the report encourages a deeper investigation of aspects of the process that the

²³ Using data from the Affordable Housing GATR; assumes typical 8-week period to first permit plan review.

²⁴ Need to take a closer look at timeline data, but this is based on assumption that most have 2+yr timeline.

City may be able to impact. This may include additional process improvement strategies related to the current case management process, such as fostering a better understanding of site requirements their potential costs during PHB's Notice of Funding Availability process.

Revisit strategies posed – but not implemented – during past GATR sessions. The 2015 GATR session that was the catalyst for the prioritization and case management system for affordable housing included a total of 18 proposed strategies to streamline the affordable housing development process. Many of these were not implemented as the group focused on a small subset of the strategies that were deemed most promising and easy to implement; however, other strategies may also improve development timelines and may be deployed as a second phase to that session's action items. A number of these strategies may help alleviate some of the continued cost and timeline challenges that these projects experience related to the design review process, including appointing an additional affordable housing liaison/advocate to the Design Commission and adding a guiding principle to "Design Guideline Approval Criteria" to include affordability (cost of materials), or to allow affordability to be weighed against other design criteria. The January 2016 GATR session also posed a number of overall strategies to accelerate the development review process, including the implementation of a "review gate" as discussed in process improvement. This report specifically recommends considering design review improvements posed in the forthcoming Design Overlay Zone Assessment (DOZA) report and instating a review gate for PHB-financed affordable housing projects, as discussed in the *Strategies to Reduce Development Timelines* section of this report, beginning on page 29.

Investigate opportunities to enhance customer service with minimal City staff time. Arguably, the most successful outcome of the current affordable housing case management process is customer satisfaction and approval of the City's process. This is likely a result of enhanced communication and understanding of project needs, requirements, and processes. While this is facilitated by a very staff time-intensive model that cannot be scaled without negatively impacting other work, there may be opportunities to improve customer understanding of the process with minimal additional staff time. Research consistently found that better understanding and familiarity with site and code requirements leads to better plans, which significantly expedites the review process. A next phase for this project could involve investigating ways to ensure the City's information around plan requirements is comprehensive yet concise and user-friendly for everyone from the novice to the experienced developer and consultants.

Improve general inter-bureau coordination and understanding, especially with relation to code or development process requirements that frequently impact several bureaus. Another clear benefit of the affordable housing case management system is the improved process and project understanding coming from coordination amongst bureaus. This has been facilitated by time-intensive meetings that bureaus do not have the capacity to scale to all projects; however, it may be worth investigating a more formalized structure of inter-bureau coordination around key developer issues and common challenges, particularly as they relate to interdependent code and development process requirements. This strategy is discussed in more detail in the *Strategies to Reduce Development Timelines* section of this report, beginning on page 29.

Accelerate attempts to fill vacant positions in development bureaus, especially public works permitting positions. Interviews with all bureaus cited staff capacity issues as a primary challenge in accelerating development process timelines, and public works permitting vacancies have been noted as especially challenging. However, several bureaus stated that their ability to manage workloads would be greatly improved if they were simply able to retain current staff and hire authorized vacant staff. Accelerating the

hiring of vacant development process positions is a key recommendation from this report and discussed more fully in the *Strategies to Reduce Development Timelines* section of this report, beginning on page 29.

It is also critical that experienced development process staff are retained, so that staffing challenges are not exacerbated. Interviews consistently cited the existence of low staff morale, given an extended period of high workloads and pressure to expedite reviews. During this State of Housing Emergency and peak workload time, it may be worth investigating incentives to improve staff morale and encourage experienced staff to stay in roles critical to the development review process.

Identify and attempt to resolve common code complexity issues that create delays. As a first step in addressing key issues that add complexity and time to project design and review, the City could provide an analysis of recent zoning and regulatory code changes; and development review bureaus and PHB may identify common code conflicts or issues that create delays for housing projects. This analysis could then suggest waivers, alternative requirements, or process improvements that may alleviate some of the delays and challenges faced by developers and reviewers alike. This analysis could be piloted to affect affordable housing projects, but could likely be expanded to affect all development.

Key Findings and Recommendations

Below is a list of key findings and recommendations derived from the research and analysis in this report. Findings and recommendations are organized as they pertain to issues considered in the order provided in the report. Implementing the recommendations below may impact the City's ability to achieve other priorities, and it is prudent to prioritize the strategies to be able to evaluate effectiveness and avoid overloading bureau staff. However, the urgency of the housing affordability crisis should bias City leaders toward action.

Key Findings

Cost Impact Analysis

1. Review fees have a negligible impact on the pro formas for market rate developers. Fees have the potential to affect affordable housing projects more significantly since they operate on very small margins; however, current review fees constitute such a small portion of total project costs that the actual impact of review fees on project feasibility is questionable.
2. System development charges constitute a larger portion of development costs than review fees; however, it is unlikely that the charges alone are significant enough to shift project viability.
3. Fees and charges become more burdensome and more of a focal point when paired with the City's complex regulatory, permitting, and approval processes.
4. Bureaus seek, but do not always achieve, cost recovery through the setting and collection of review fees; reductions in review fees would need to be paired with increased General Fund support, rate increases, or service reductions in certain bureaus. The exception would be a short term reduction in BDS fees, where current excess reserves may temporarily cover reduced revenue from fee reductions.
5. SDCs are used to reinvest in or expand infrastructure systems. Increases in SDC waivers would either result in project deferrals in infrastructure systems with significant deferred maintenance, lower levels of service expansion for future residents, ratepayer increases, or additional burden on the General Fund.
6. Reducing SDCs may reduce the cost passed on to renters and homebuyers; however, developers will likely continue to charge what the market will bear despite cost reductions because this increases profit ROI which has the potential to reduce interest rates.
7. Reducing SDCs *could* have a positive effect on housing development; however, we suspect the change may be marginal and insufficient to catalyze substantial development. This analysis finds that the negative impacts to bureaus and the City far outweighs the potential benefit in terms of spurred development.

Development Process Timelines Analysis

1. The volume of projects in the current development pipeline exceeds staff capacity to complete timely reviews, and can lead to first round reviews that do not catch all issues, leading to delays and applicant frustration during second and third reviews.
2. Development bureaus are carrying a number of vacancies in job classifications that would help alleviate capacity issues and experience challenges filling these positions for a variety of reasons.
3. Due to extended periods of heavy workloads and pressure to expedite reviews, development bureau staff morale is low, contributing to capacity challenges and threatening to worsen the challenge.
4. Despite ongoing cross-bureau collaboration, significant regulatory cross-code interactions and dependencies cause confusion and delays; the City could benefit from identifying a regulatory hierarchy in certain development situations.
5. The review process is more clear to experienced applicants, but for novice applicants, it is unclear what processes must be followed and what permits are needed; the cost estimation calculator provides decent ball park numbers for fees, but determining exact fees and reviews requires staff assistance; these fees are needed for accurate pro formas.
6. The feasibility of promising process improvements often hinges on availability of IT staff. Where possible, these projects should be prioritized to increase development review capacity.
7. There is a clear need for coordination and leadership accountability for the entire development review process. This includes ongoing assessment of performance on City goals for development services, and one-off responsibilities for resolution of customer issues caused by conflicting code requirements.
8. Electronic plan review holds the most promise for transforming the current development services process, but there are many unanswered questions about timeline and feasibility of implementation that need to be addressed.

Affordable Housing Case Management Analysis

1. Current case management practices, especially case management of affordable housing projects, improves customer service and process timelines but is staff time-intensive and expansion comes at the cost of other project timelines.
2. Initial results from the case management and prioritization process for City-funded affordable housing projects indicate significant benefits in the form of developer satisfaction and some key process timeline improvements. However, it is unlikely that these process improvements alone will significantly accelerate overall project timelines.

Recommendations

Given the comprehensive research outlined in this document, highlighted in the above findings, CBO and OMF pose the following recommendations:

Recommendations regarding Fees and Charges

1. Do not reduce current review fees, as these would have a negligible benefit on development projects and housing supply but would negatively impact ratepayers or service levels.
2. Investigate improving cost recovery rates of PBOT and PF&R as a strategy to ensure adequate staffing of development review process to achieve desired City level of service.
3. Retain current SDC waivers for affordable housing projects consistent with existing PHB program for multi-dwelling development and single-family homeownership.
4. Consider the community benefit of accessory dwelling units in relation to waiver costs to City.
5. Do not reduce or waive additional SDC fees.

6. Schedule follow-up report to review unspent SDC balances and barriers to SDC spending for investment bureaus.
7. When SDC changes are presented to Council, adopt a policy that they must be presented in the context of all City SDCs to development projects.

Recommendations on Development Process Improvements

8. Apply a “review gate” for the permitting process for PHB projects. (Short-term)
9. Task P&D Directors to manage process to meet City development goals for service, including updating IAs between bureaus. (Short-term)
10. Improve review timelines with existing resources by filling vacant positions in development bureaus, especially public works permitting positions. (Short-med term)
11. Expand online credit card payment option for Minor Improvement Permits (Short-med term)
12. Implement electronic plan review. (Medium-term)
13. Support continued pilot of Citywide Peak Process Improvement program. (Short-term & ongoing)
14. Consider the addition of a program that incentives and rewards developers that consistently submits complete plans, perhaps targeting 100% regulated affordable housing projects. Examples include Seattle’s [“Criteria for Consistently Prepared Applicant Submittals”](#).
15. Consider further consolidating billing process for fees or making them more clear for customers.

Recommendations for Regulatory Improvements

16. Investigate other aspects of the affordable housing development process, such as the NOFA and financing process, that may be within the City’s control to accelerate.
17. Consider the Design Overlay Zone Assessment (DOZA) report recommendations.
18. Consider the merits of exempting 100-percent affordable housing projects from design review when there is a verified consistently prepared applicant.
19. Consider mechanisms to spread the cost burden for community-wide issues like housing affordability more broadly, rather than targeting a particular sub-group (suggestions included a .5% real estate transfer tax that is levied on all transactions in Oregon).

Appendix A: Developer Interviewees

Dave Otte, Holst Architecture

Tom Bard, ScanlanKemperBard

John Spencer, John C. Spencer Consultant

Justin Wood, Fish Construction

Bob Walsh, Walsh Construction

Greg Goodman, Downtown Development Group

John Southgate, Consultant

Peter Skei, Specht Development

Michael Harrison, Oregon Health and Science University

Brian Newman, Oregon Health and Science University

Ed McNamara, Turtle Island Development